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INDIAN ECONOMY

Lessons - 1 to 20

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Course Outline

Unit	Title	Credits L
I.	**Understanding the Indian Economy** Impact of colonization on Indian Economy. Post-Independence Economy; Planning for the economy – objectives, strategy and achievements (Plan wise details to be excluded). State of the Economy in 1991. Features of the Economic Reforms and Structural Adjustment Programme: Liberalization, Privatization and Globalization. Appraisal of Economic Reform Programme. Relevance of planning in the context of globalization, Objectives and Functions of NITI Aayog.	12
II.	**Problems Faced by Indian Economy** Poverty: definition and estimate, poverty line, poverty alleviation programs. Inequality: income and regional inequality - causes and corrective measures. Unemployment: concepts, measurement, types, causes and remedies. Food problem and food security, Role of Public Distribution System (PDS) in India. Direct Cash Transfer Scheme of Government.	10
III.	**Agriculture in India** Pattern of Growth of Indian Agriculture since 1950; Land Reforms, Green Revolution, Agricultural Production, Productivity. Factors Influencing Agricultural Development: Marginalisation, Labour, Marketing and Finance. Issues and challenges in agricultural credit and subsidy. Deceleration in the 1990s – Causes and Future Challenges. Economic Liberalization and Emerging Trends in Indian Agriculture. New Agricultural Policy (In the context of liberalization.)	12
IV.	**Industries in India** Role of Industry in Economic Development. Pattern of Industrialization, Industrial development during the plan period. Role, Growth and Problems of Cottage, small scale and Medium scale industries in India. Industrial Policy: 1948, 1956 and 1991 and Recent Developments. Impact of New Industrial Policy on Industrial Sector.	10

Suggested Readings:

1. U. Kapila (2010):Indian economy since Independence. Academic Foundation, New Delhi
2. S. Chakraborty (): Development Planning: The Indian Experience. Clarendon Press.
3. Jalan Bimal 1992, The Indian Economy - Problems and Prospects.
4. A. Panagariya (2008): India: the Emerging Giant, Oxford University Press, New York
5. S. Acharya and R. Mohan (Eds.) (2010): India"s Economy: Performance and Challenges, Oxford University Press, New Delhi.
6. I. J. Ahluwalia and I. M. D. Little (Eds.) (1998): India"s Economic Reforms and Development: Essays for Manmohan Singh, Oxford University Press, New Delhi.

CONTENTS

Lesson	Title	Page No.
1.	Basic Features of Indian Economy During Colonial Period	3
2.	Economic Planning –I	12
3.	Economic Planning –II	23
4.	National Income of India: Concept, Measurement & Growth	33
5.	Economic Reforms in India	47
6.	Globalization	59
7.	Poverty	72
8.	Inequality	91
9.	Unemployment	103
10	Food Security	117
11.	Agriculture-1	127
12.	Agriculture-2	134
13.	Land Reforms	145
14.	Green Revolution	155
15.	Agriculture: Subsidies and Related Issues	167
16.	Emerging Trends in Indian Agriculture	179
17.	Impact of Economic Reforms in Indian Agriculture Sector	185
18.	Role of Industry in Economic Development	191
19.	Cottage and Small Scale Industries	206
20.	Industrial Policy-1	216
21.	Industrial Policy-2	227

LESSON- 1

BASIC FEATURES OF INDIAN ECONOMY DURING COLONIAL PERIOD

Structure

1.0 Objectives

1.1 Introduction

1.2 Evolution of Colonial Rule

1.3 Basic Structure of Indian Economy Under Colonial Period

1.3 .1 Predominance of Rural Life

1.3.2 Predominance of Agriculture in GDP

1.3.3 Reduction in the Per Capita Income

1.3.4 Low Levels of Living

1.3.5 Low Economic Growth Rate

1.3.6 Predominance of agriculture in Occupational Structure

1.3.7 Trade

1.3.8 Handicrafts and Industries

1.3.9 Infrastructural Development

1.4 Aspects of Colonial Rule

1.5 Summery

1.6 Exercise

1.7 Key Words

1.8 Suggested Readings

1.0 Objectives

For the understanding the present state of the economy of India, as also its likely future, we must delve deep into its economic history. It is only with the proper understanding and interpretation of the past that we can evolve suitable policies and measures to solve the problems which Indian economy is facing. After reading this unit you will have an idea about the nature of Indian economy during the British rule.

1.1 Introduction

India was a direct colony of the British and the impact of this colonial rule over the economy, society and polity of India has been quite deep. Many serious consequences of the British Colonial Rule are still persisting and this makes the study of colonial phase of India very relevant for understanding many contemporary aspects of the Indian society. It must be stated at the outset that direct colonial rule leaves a total impact on the colonized society because every aspect of social life is influenced by colonial policies of the colonizers. A direct colony (as was the case with India) is under the complete control of the colonizers and colonial policies and interests penetrate every aspect of social life of a colony. Another important fact about India is that the colonial rule lasted for a very long time and this longevity of the colonial rule over India affected the vitals of the Indian society. The long period of British rule over India provided enough time to the British to establish strong and stable institutions for the governance of India. The journey of British occupation of India was slow and steady and it passed through various stages. This evolutionary process provided the British an opportunity to evolve their policies and change their policies on the basis of experience gained through practice. But before we go into that, we should have a look at the nature of Indian economy prior to British rule.

1.2 Evolution of Colonial Rule

When did the 'British Rule' in India commence? Are we to consider the year 1818 as the year, as the year of the commencement of the British rule in India, as by then the East India Company had established its rule and administration under the direction and the supervision of the British Parliament which had already passed the Regulating Act (1774) and Pitt's India Act (1784). The British East India Company got a legal charter for trade from the Mughal ruler in 1600, and soon this trading company started conquering India. The conquests began in 1757 with the defeat of the Nawab of Bengal by Robert Clive. The East India Company ruled India for a century, i.e., from the decisive Battle of Plassey in 1757 to 1857 when Indians fought a war of independence. Alternatively, we are to consider the year 1858, when the British defeated the Indians in the war of Indian mutiny in 1857 and in 1858 Queen Victoria assumed the responsibility of direct rule over India. The rule of East India Company ended and the British Parliament became directly responsible for the governance of India and this continued till 1947.

So far as our study of the state of the Indian economy during the British rule is concerned, it does not matter much whether we take 1818 or 1858 as the date of the beginning of the colonial period in India. The real impact of the British rule over India was to be felt only after 1858. The economic conditions and the organization of the economy in Indian village as well as urban area, for all practical purposes remained the same between 1818 and 1858 (Desai, 1980).

Before the advent of the British, Indian economy was in a state of equilibrium, though at a low level. The following paragraphs describe the economic conditions of different sectors of Indian economy the second half of the 19th century.

1.3 Basic Structure of Indian Economy during Colonial Period

India in the pre-colonial period had a stable economy. Self-sufficient agriculture, flourishing trade and rich handicraft industries-these were some of the features of the Indian economy. However, after British took over, both nature and structure of Indian economy underwent profound changes and it served the British economic interests at the cost of India. While the economy of Britain flourished, India was left amidst poverty and was found in such a state from which was impossible to recover. No doubt, development of transport and communication, those changes ruined Indian economy to a greater degree. In other words, as a colony India was dried of economically but she nourished the economy of the mother country, i.e. England. In the present lesson we are supposed to analyze the state of the Indian economy during the colonial period.

1.3.1 Predominance of Rural Life

The 1872 census revealed that 91.3% of the population of the region constituting present-day India resided in villages, adopted cultivation as the primary occupation. Indian economy was traditionally self-sufficient village economy. Under this economic system, each village was functioning as an economic unit and was able to meet the basic needs of the villages. Usually people of different occupations or professions lived in the village and exchanged their product among themselves or with people of nearby villages. The exchange of goods or products is called barter system. Even trade and commerce of India was mainly depended upon agricultural products and its allied ones. A cultivator had to exchange food crops to get other essentials of life and a weaver exchanged his products for food crops. In other words, sale of goods for money or cash was not a practice. Even labourers, carpenters, potters, blacksmiths were paid wages in kinds of their services. Sometimes the exchange process was multi angular involving more people.

For example, a cultivator needs the services of a carpenter to supply agricultural tools, the carpenter needs clothes, a weaver needs oil but the oilman requires the services of labourers and needs food grains. The net work of exchange completes when all of them court-operate to exchange their services among one another. The cultivator supplies food grain to labourers, the labourers serves the oilman, the oilman meets the need of the weaver, the weaver works for the carpenter and finally the carpenter meets the need of the cultivator.

Urbanization generally remained sluggish until the 1920s, due to the lack of industrialization and absence of adequate transportation. Subsequently, the policy of discriminating protection (where certain important industries were given financial protection by the state), coupled with the Second World War, saw the development and dispersal of industries, encouraging rural-urban migration, and in particular the large port cities of Bombay, Calcutta and Madras grew rapidly. Despite this, only one-sixth of India's population lived in cities by 1951.

1.3.2 Predominance of Agriculture in GDP

In 1901 the share of primary sector in national income was 63.60%, mere 12.7% was the contribution of secondary sector whereas the share of tertiary sector stood at 23.7%.

Table1.1: Share of Various Sectors in Gross Domestic Product in %

Sector	1901
Primary	63.6
Secondary	12.7
Tertiary	23.7

Source: Economic history of India

Agriculture was still dominant, with most peasants at the subsistence level. Extensive irrigation systems were built, providing an impetus for growing cash crops for export and for raw materials for Indian industry, especially jute, cotton, sugarcane, coffee and tea. Agricultural operations were carried on in India by subsistence farmers, organized in small village communities. Village was more or less a self-sufficient economic unit and its business contacts with the outside world were limited to payment of land revenue (generally in kind) and the purchase of a few necessary things from the town nearby. The farmer raised only those crops which he needed for his own use and shared the same with the village artisan who supplied him with simple manufacture that he needed for his domestic consumption. Means of communication were of a primitive type. Therefore, trade in agricultural produce, was somewhat limited. The farmer usually raised enough produce to feed himself and the non-agricultural members of the village community. If his crop yielded more than the consumption needs, due to favourable climatic conditions, he stored that surplus for use in the lean years. Storage of food grains was a common practice among the pre-colonial agriculturists and constituted, under these conditions, the only remedy against famines. This pattern of agriculture continued throughout the medieval times. However, towards the end of the 18thcentury the village communities began to break up, under pressure from new forces which imparted dynamism to the Indian rural economy. This happened mainly because of two factors, (1) The change in the property relations brought by the introduction of new forms of land tenure which you will study a little later in this unit, and (2) the development of an active export trade in agricultural produce of India. The contact with the west through the establishment of the British rule was responsible for both these developments.

1.3.3 Reduction in the Per Capita Income

The two significant developments that indicate the down-turn from the fairly developed stage of the economy were the movements downwards in the per capita income and deterioration in the productive capacity of the country.

From Table 1.1 it is clear that the per capita income at constant prices show a decline for all these period from Rs. 24.35 to Rs. 24.5 to Rs. 23.13.

Table 1.1: Per Capita Income [1867-68 to 1901]

Year	Per Capita Income At 1873 prices
1867	24.35
1882	24.05
1901	23.13

Source: V.V. Bhatt, *Aspects of Economic Change and Policy in India*

Some of the notable economists who estimated India's per capita income during the colonial period are, Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai. Among these it was Rao whose estimates of the national and per capita incomes during the colonial period were considered very significant.

1.3.4 Low Levels of Living

The stagnant per capita income was, however, a symbol of the utter poverty of the people. They ate very inadequate and unbalanced diet. Their housing was primitive and they suffered ill-health. With unemployment and under- employment widespread and with no social security and exploitative zamindari system and administration, they lived a bleak and miserable life. Famines were very frequent during the British rule and took a heavy toll of life.

1.3.5 Low Economic Growth Rate

Indian economy grew at about 1% per year from 1880 to 1920, and the population also grew at 1%. The result was, on average no long-term change in income levels. The stagnant per capita income also portrayed the fact that during the British rule, the Indian economy experienced falling growth rates year after year. With low growth in national income, there was very little that was added to the stock of real capital of the country. The rate of net investment at the end of the British rule remained at a very low level of 5 per cent.

1.3.6 Predominance of agriculture in Occupational Structure

Unlike a growing economy where the percentage of workers in agriculture falls and that in manufacturing, transport and other services rises, the reverse happened in the case of India. Table 1.2 depicts that proportion of the working force going into agriculture and its allied activities increased from 74% in 1881 to 76% in 1931 while decreased from18%in 1881 to 15% in 1931. Transport and other services registered a marginal increase from 8% in 1881 to 9% in 1931.

Table 1.2: Working Force [Males] Distribution by Industry, 1881-1931

[index includes Burma and Pakistan]

Working Force [Male]	*Percentage*				
	1881	*1901*	*1911*	*1921*	*1931*
Agriculture, Forestry, Fishing Etc.	74	74	74	76	76
Manufacturing, Mining, Construction and Trade	18	16	15	15	15
Transport and other services	8	10	10	9	9

A.N. Aggarwal, *Indiand Economy:Problems of Development &Planning*

1.3.7 Trade

In spite of the fact that the Indian villages were largely self-sufficient units and the means of communication were primitive, India enjoyed extensive trade both within the country and with other countries of Asia and Europe. A balance of the imports and exports was maintained. The items imported into India were pearls, wool, dates, dried fruits an d rosewater from the Persian gulf; coffee, gold, drugs and honey from Arabia; tea, sugar and silk from China; gold, musk and woolen cloth; metals like copper, iron and lead, and paper from Europe. The main items exported from India were cotton textiles. Besides cotton textiles which were famous the world over, India also exported raw silk, indigo, opium, rice, wheat, sugar, pepper and other spices, precious stones and drugs. The major features of Indian trade in pre-colonial times were (i) a favourable balance of trade and (ii) a foreign trade most suitable to the level of manufacturing in India. A favourable balance of trade meant an excess of exports over imports, i.e., India exported more than it needed to import. Since the economy was on the whole self-sufficient in handicrafts and agricultural products, India did not need foreign imports on large scale and continued to enjoy a healthy trade. Secondly, India's foreign trade suited its requirements very well. In other words, the commodity pattern, so important to any country's foreign trade, was in India's favour. India exported the items it specialized in; and imported the ones it needed. One major change that occurred in India's foreign trade from pre-colonial to colonial times was in its commodity pattern. Although India continued to have an export surplus, the pattern of foreign trade turned up side down. For instance, from an exporter of cotton textiles, India was converted into an importer of cotton textiles, thereby ruining India's rich traditional handicrafts.

1.3.8 Handicrafts and Industries

As discussed above India was a land of extensive manufactures. Indian artisans were famous for their skills the world over. In fact the reason for India's favourable foreign trade was its excellence in indigenous production. India indulged in a large scale manufacture of cotton and silk fabrics, sugar, jute, dye stuffs, mineral and metallic products like arms, metalwares and oil. Towns like Dacca and Murshidabad in Bengal;Patna in Bihar; Surat and Ahmedabad in Gujarat; Chanderi in Madhya Pradesh; Burhanpur in Maharashtra;Jaunpur, Varanasi, Lucknow and Agra in U.P.; Multan and Lahore in the Punjab; Masulipatnam, Aurangabad and Visakhapatnam in Andhra; Bangalore in Mysore and Coimbatore and Madurai in Madraswere flourishing centres of textile industry. Kashmir specialised in woollen manufactures. Maharashtra,Andhra and Bengal were prominent centres of ship building industry. India's ships were bought by many European companies for their use.India, towards the end of the 18th century was, undoubtedly one of the main centres of world trade and industry. This status of India was completely destroyed under colonial times. Its beginnings can be traced tothe after-math of the industrial Revolution in England. The machine made cloth of England began to replace the indigenous manufactures. India's artisans were forced out of production. It was this pressure from the British goods which led to the decline of the traditional India's centres of economic activity listed above. The number of weavers also declined.

1.3.9 Infrastructural Development

Under the colonial regime, basic infrastructure such as railways, ports, water transport, posts and telegraphs did develop. However, the real motive behind this infrastructure development was not to provide basic amenities to the people but to sub serve various colonial interests. Like the roads that were built primarily served the purposes of mobilizing the army within India and drawing out raw materials from the countryside to the nearest railway station or the port to send these to far away England or other lucrative foreign destinations. The introduction of the expensive system of electric telegraph in India, similarly, served the purpose of maintaining law and order. The British introduced the railways in India in 1850 and it is considered as one of their most important contributions.

1.3.10 India’s demographic profile

After the year 1921 which is regarded as the defining year to mark the demographic transition from its first to the second decisive stage, the overall literacy level was less than 16%. Out of this the female literacy level was at a negligible low of about 7%. The infant mortality rate was quite alarming- about 218 per thousand in contrast to the present infant mortality rate of 63 per thousand. Life expectancy was also very low- 32 years in contrast to the present 63 years. In the absence of reliable data, it is difficult to specify the extent of poverty at that time but there is no doubt that extensive poverty prevailed in India during the colonial period.

1.4 Aspects of Colonial Rule

Two aspects of the gradual expansion of British occupation of India deserve attention. The experiences gained by the British in one region of India were either extended or modified in other regions and this learning through practice made them quite powerful in dealing with the problems of a large colony like India. The changes in British society demanded different approach to satisfy the interests of emerging social groups in Britain. The essence of British colonial policies in India was determined by the dynamics of society which witnessed many changes in Britain. The modern British society progressed through stages like mercantile capitalism to industrial capitalism and from competitive industrial capitalism to monopoly industrial capitalism. The interests of mercantile British capitalism lay in trade with India. The interests of industrial capitalism were, on the other hand, market oriented, in which the Indian colony was to provide raw maternal and buy manufactured goods from Britain. Thus social and economic changes in Britain directly influenced British colonial policies in India.

1.5 Summery

During the reign of the British East India Company, there was a drastic shift in the economic activities conducted across the country. More stress was laid on commercialization of agriculture. This led to a change in the agricultural pattern across the nation. During this phase of the Indian economy, there was a constant decline in the production of food grains in the country which resulted to the mass impoverishment and destitution of farmers. Also, in a short span after this shift of pattern, there were numerous famines raised in the country.

Though, after and during this phase, there was a sharp decline in the economic structure of the country, but this was also the phase during which some major and economically important developments took place. These developments include the establishment of railways, telegraphs, common law and adversarial legal system. Also, it was during this era that a civil service which essentially aimed to be free from the political interference was established.

1.6 Exercise

Q1 Explain the term that British colonial policies made an impact on every aspect of the Indian society.?

Q2 Indian agriculture remained unchanged from the pre-colonial to colonial period. Explain the term?

Q3 Write five lines each on the state of (i) agriculture, (ii) trade and (iii) industries in the colonial period.

1.7 Key Word

- **Bullion:** wealth in the form of precious metals like gold and silver
- **Colonialism:** the practice of acquiring colonies by conquest or other means and making them dependent was one of the ways to extend power, control or rule by a country over the political and economic life of areas outside its borders. The main feature of colonialism is exploitation.
- **Commercialization** – modifying something for the purpose of trade

- **Demographic Transition:** refers to the transition from high birth and death rates to low birth and death rates as a country develops from a pre-industrial to an industrialized economic system.
- **Gross Domestic Product:** total value of goods and services produced in a year in a country.
- **Mercantilism**: an economic theory followed in Europe between the 16th and 18^{th} centuries, in which states used warfare to ensure an inflow of bullion, and control trade and resources through colonies
- **Per Capita income**: Money earned per head.
- **Productivity of Land**: Producing capacity of land

1.8 SUGGESTED READING

1. Baden-powell, B.H. 1892. *The Land Systems of British India,* Vols I, II and III, Oxford Clarendon Press, Oxford

2. Buchanan, D.H. 1966. *Development of Capitalist Enterprise in India.* Frank Cass and Co, London.

3. Chandra, Bipan. 1993. '*The Colonial Legacy'* in Bimal Jalan (ed.), *The IndianEconomy: Problems and Prospects*. Penguin Books, New Delhi.

4. Dutt, R.C. 1963. *Economic History of India*, Vols. I and II. Ministry of Information and Broadcasting, Government of India, New Delhi

LESSON - 2

ECONOMIC PLANNING –I

STRUCTURE

2.0 Objectives

2.1 Introduction

2.2 Meaning of Planning

2.3 Definition of Economic Planning

2.4 Significance of Planning in Underdeveloped Countries

2.5 Economic Planning in India

1.5.1 Process of Planning

2.6 Role of Planning Commission

2.7 Role of National Development Council

2.8 Summary

2.9 Exercise

2.10 Glossary

2.11 Suggested Readings

2.0 OBJECTIVES

The study of this lesson will enable you to

- Understand the meaning of Planning
- Understand the Need of Planning

2.1 INTRODUCTION

Economic development has been closely linked with planning. Planning has become a craze in modern times, especially in under-developed and developing countries. The idea of planning acquired a tremendous support after the end of World War II when advanced but disrupted economies had to be rehabilitated and the underdeveloped economies were fired with the ambition of rapid economic development. The idea of planning was not kindly taken up in some countries by some people. It was perhaps due to the fact that planning came to be most actively associated with socialist economies. Hatred of socialism was most actively transferred to planning too.

But such unreasoned opposition to planning has now almost vanished. Even in capitalist countries, where the economy is governed and directed by market incentives, planning are being practiced more or less in one or the other sector of the economy. About 20% of the American economy may be considered as planned because to this extent current resources are controlled and disposed of by the State.

Although the distinction between planned and the unplanned economy is there, yet planning has been universally accepted and the planned sector is expanding almost everywhere. For the under developed countries, desirous of accelerating development, planning is sine qua non of progress. As Robbins says, “Planning is the grand panacea of our age” It is no longer a forbidden fruit. The concept of economic planning attracted the attention of most of developing countries since its first experiment made by then Soviet Union in 1928. Since then it was adopted by number of countries in various forms. For having enough understanding of the concept, it is felt essential to study its basic doctrine.

2.2 Meaning of Planning:

The term “planning” is now so much in common use that it seems to be unnecessary to define it or to explain its meaning. In fact, it is not possible to give it any precise or universally acceptable definition. There is no unanimity among political thinkers and economists about the concept of planning. As Raymond Burrows remarks, “Planning as a modern panacea is as perplexing to a pedant as it is popular to a protagonist”.

2.3 Definition of Economic Planning:

It is rather difficult to give a concise definition of economic planning with a fair degree of precision and acceptability to one and all. Hence different economists have defined economic planning in a variety of ways by keeping in mind the goals to be achieved and the techniques for achieving them. Apart from stating that planning is a method, a technique or a means to an end, the end being the realization of clearly set targets, we discuss the number of definitions which in their totality convey the full meaning and content of economic planning.

1. **Mrs. Brbara Wooton** defines it as “Economic planning is system in which the market mechanism is deliberately manipulated with the object of producing a pattern other than which would have resulted from its own spontaneous activity”.
2. **Herman Levy** defines it as “Economic planning means securing a better balance between demand and supply by conscious and thoughtful control either of production or distribution”.
3. **Dr. Dalton says, “**Economic planning in the widest sense is the deliberate direction by persons in charge of large resources of economic activity towards chosen end”
4. **Lewis Lorwin** defines a planned economy “as a scheme of economic organization in which individual and separate plants, enterprises and industries are treated as coordinate units of one single system for purpose of utilizing all available resources to achieve for maximum satisfaction of the people’s needs within a given time”
5. **National Planning Commission of India-** “Planning under a democratic system may be defined as the technical co-ordination, by disinterested experts, of consumption, production , investment, trade and income distribution, in accordance with social objectives set by bodies representative of the nation. Such planning is not only to be considered from the point of view of economics and the raising of the standard of living but mist include cultural and spiritual and the human side of life”.

6. **H.D. Dickinson** defines economic planning as below :“Economic Planning is the making of major economic decisions what and how much is to be produced, how, when and where it is to be produced, and to whom it is to be allocated by the comprehensive survey of the economic system as whole”.

This is by far the most comprehensive definition as it describes the anatomy of planning. The planning is done by central authority like state possessing the powers for implementation. It is to be preceded by a comprehensive survey of economic conditions which will point out the defects and deficiencies of the prevailing economic system. After this survey, definite goals are fixed. The manner and timing, quantitative aspects of achieving these goals are then outlined; finally, the benefits accruing from such action are to be shared for the maximum satisfaction of the largest number of people through deliberate decision, control and direction.

2.4 Significance of Planning in Underdeveloped Countries:

Planning is beneficial for both the developed and underdeveloped countries for the developed countries to maintain or accelerate growth already achieved and for underdeveloped countries to overcome poverty and to raise the standard of living. Unless the underdeveloped countries wake up and follow the planning, they will be left far behind in the race of economic well-being. The following arguments reveal an urgent need of planning in underdeveloped and developing countries:

1. **Remove the poverty and inequalities:** The economic vicious circle of poverty arising due to low income, low savings and high propensity to consume, and further lower investment and low capital formation, low productivity, low income and poverty must be broken and it can be done only by planning. Planning is like a shot in the arm which enables a sick person to overcome his sickness. Planning alone can create more jobs and remove the wide spread unemployment and disguised unemployment which is a common feature of underdeveloped countries. It is the sovereign remedy for raising national and per capital income, for reducing inequities in income and wealth, for increasing employment opportunities and for achieving as all round rapid economic development. It is commonly said that the pendulum has swung too wide in favour of planning that is cannot swing back against planning.

2. **Development of Agriculture and Industrial Sector:** Planning alone can transform an agricultural and primary producing economy into a more balanced economy with heavy, medium and light industries. Agriculture and industry stimulate production in each other by creating demand for their products. Development of agriculture is also essential to supply the raw material to the industrial sector. Economic planning held in designing the plans of agricultural and industrial sectors of developing economies.

3. **Development of Infrastructure:** Planning alone can help an underdeveloped economy to build up its infrastructure – irrigation and power, transport and

communication and schools and hospitals. The establishment of these social economic overheads is essential for an all-round harmonious and integrated development. The private enterprise is guided by profit motive and is not interested in these items of social gain.

4. **To increase the rate of Economic Development:** One of the principle objective of the planning in underdeveloped countries is to increase the rate of economic development. In the words *D. R. Gadgil* "Planning for economic development implies external direction or regulation of economic activity by the planning authority which in most cases identify with the government of state." It means planning increases the rate of capital formation by raising the levels of income, saving and investment. It is only a central planning authority which can control banking and other credit institutions when these are under private enterprise they have a tendency to crowd in urban areas. The vast rural areas are completely neglected and thrown to the wolves, the indigenous money-lender. A planned economy can revolutionize the economy by providing financial institutions and by mobilizing savings and investments in the rural areas. Planning alone can remove the imbalance in foreign trade which is generally unfavourable to the underdeveloped countries that are the exporters of primary produce and imports of produced goods.

5. **To improve and Strengthen Market Mechanism:** The rationale for planning arises in such countries to improve and strengthen the market mechanism. The market mechanism works imperfectly in underdeveloped countries because of the ignorance and unfamiliarity with it. A large part of the economy comprises the non-monetized sector. The product, factor, money and capital markets are not organized properly. The market mechanism is required to be perfected in underdeveloped countries through planning.

6. **Balanced Development of the Economy:** In the absence of sufficient enterprise and initiative, the planning authority is the only institution for planning balanced development in the economy. For rapid economic development, underdeveloped countries require the development of the agricultural and industrial sectors, the establishment of social and economic overheads, and the expansion of the domestic and foreign trade sectors in a harmonious way. All this requires simultaneous investment in different sectors which is only possible underdevelopment planning.

7. **Development of Money and Capital Markets:** The expansion of the domestic and foreign trade requires not only the development of the agricultural and industrial sectors along with social and economic overheads but also the existence of financial institutions. Money and Capital market are underdeveloped in the countries are at their primary stage. This factor acts as an obstacle to the growth of industries and trade. The planning authority should be such, which can control and regulate the domestic and foreign trade in the best interests of the economy.

2.5 Economic Planning in India:

Economic Planning is essentially a way of organising and utilising economic resources to maximum advantage in terms of well-defined socio-economic goals. The concept of economic planning in India was not altogether new. Even under British Rule, there had been good deal of thinking on the subject of economic planning in India. The first idea of planning for India was advocated by Sir Vishvesvarayya who published the book on economic planning entitled as **"**Planned Economy For India" in 1934.

In 1937, the Indian National Congress set up the National Planning Committee under the chairmanship of Late Pandit Jawaharlal Nehru. But owing to the great political changes, the work of the committee remained suspended from 1944 to 1946. The committee submitted its report in 1949.

In Addition to this several other plans were drawn up. They were as below:

A. Bombay Plan:

It was published in January, 1944 & came to be known as **Bombay Plan.** It was prepared by eight leading industrialist of Bombay. The cost of the plan was Rs. 10,000 crores. The period of the plan was of 15 years. It aimed at doubling per capita income & trebling the national income in that period. It proposed to increase agriculture output by 130%, industrial output 500% & services 200% of the 1944 figures during 15 years.

B. People's Plan:

It was drafted by M. N. Roy. It was The Tata Birla Plan provoked the Indian Federation of Labour to put forth an alternative plan which was christened as the **People's Plan.** It was a Rs. 15000 crores plan; spread a period of ten years. It laid special emphasis on agriculture development through nationalisation of land.

C. Gandhian Plan:

A plan on Gandhian principles was put forward by Principal S.N. Agrawal of Wardha Commercial College. It was very modest plan with an estimate cost of Rs. 3,500 crores. It was aimed at developing a decentralised self-sufficient agricultural society with emphasis on the development of cottage industries. However, it was essentially an idealist plan which neglected the development of basic & heavy industries.

D. Post -War Reconstruction Plan:

The British Government of India set up a Planning Development Council under the chairmanship of Sir Ardeshir Dalal in 1944. This development was able to formulate several schemes, short-term as well as long term, to be enforced after the Second World War.

In 1946 the Interim Government set up an Advisory Planning Board to review the whole problem of planning and to make recommendations to the government as regards the action to be taken thereon in India.

E. Colombo Plan for India:

In March 1950, the Government of India appointed a Planning Commission with the Prime Minister as its Chairman. The Colombo Plan was a six-year plan. It aimed at improving the living standards of the people of South and South-East Asia by stepping up the production of food grains, industrial raw materials and finished goods. As regards India the plan proposed to spend Rs. 1,839 crores on plan Development projects during the 1951-56.

F. Planning Commission & the Plans:

The Government of India set up planning commission under the chairmanship of Late Pandit Jawahwr lal Nehru, the then prime minister of India in 1950 prepared the plan for the most effective and balanced utilization of the country's resources. The Planning commission presented a draft outline of the First Five Year planning July 1951. Since 1951, India has completed Eleven Five Year Plans and the current twelfth Five Year plan (2012-2017) is in progress which will be completed by 2017. In the 11 plan important aspect of **"inclusive growth"** was considered as the target of government. For development of excluded society and sectors in Indian economy.

2.5.1 Process of Planning:

The development planning in India is being implemented by structuring five year plans. The design and implementation of planning passes through Process of planning in India takes place in six stages. These are briefly discussed as below

1. **First Stage:**

The first stage begins about three years in advance of the commencement of the Plan. The planning commission attempts a thorough appraisal of the existing state of economy of the country and also makes detailed suggestions to remove the social, economic and institutional weakness which may be retarding the country's progress. This report of the 'Planning Commission' is then submitted to the central Cabinet and the 'National Development council' (NDC) for the examination and consideration. The National Development Council, on its part, after having considered the report, makes certain preliminary suggestions to the Planning Commission regarding the rate of growth to be assumed and the objectives and consideration which should receive special emphasis in the five year plan.

2. **Second Stage:**

The second stage consists in arranging various types of studies which form the basis of a Draft Memorandum on the physical contents of the Five year Plan. The Planning Commission constitutes a series of working groups, composed of its specialists and those of the Ministries concerned at the centre. Each Working Group is concerned with a particular sector at field of the economy. In 1965 The Planning Commission appointed separate Working Groups to study financial Resources, Agriculture irrigation, and family planning, Housing, Rural planning, Welfare of Backward Classes. The Working Group on Financial Research was concerned with the estimation of financial resources, both external, internal and resources for the public sector as well as the privet sector.

Each working group is expected to review the performance of the economy in its particular field and to point out the deficient that may have been observed. As the working groups at the Centre begin their word, state government are also advised to constitute similar working groups of their own. On the basis of reports of the working groups and suggestions of the various panels, the Planning Commission drafts a Memorandum known as **Draft Memorandum.** This includes the Principle magnitudes of the next plan. The Draft Memorandum is submitted to the central cabinet which discusses the document detail. The document is then placed before the National Development Council, forms the basis for the next stage in the formulation of plan, namely, the preparation of a **Draft outline.**

3. **Third Stage:**

In the third stage the Draft Outline is a much more detailed document than the Draft Memorandum. It gives fuller details of the various plans envisaged for the different sectors and brings out clearly the main policy issues and objectives and the approach which is proposed to be adopted. The Draft Outline is prepared by the Planning Commission and is circulated among the various Ministries and state Governments for comments. It is considered by the Central Cabinet before being submitted to the National Development Council. With the approval of the National Development Council the Draft Outline is published as a document for the widest public discussion and comments are invited from all sections of public opinion. At the national level, both Houses of Parliament discuss the Draft outline, first in a general way for a few days at a time and then in greater detail through a series of Parliamentary Committees.

4. **Fourth Stage:**

In the fourth stage, while the Draft Outline is under discussion throughout the country, the Planning Commission in association with the Ministers at the centre holds detailed discussion regarding the plans of individual states. These discussions involve a study of their financial resources, proposals for rising additional resources and their detailed plans of development. With each state, the discussions are held both at the expert level and at the political level. But the final conclusion is reached in consultation with Chief Ministers of individual states. These conclusions are regarded as understandings between the Planning Commission and the states for the size and composition of each states plans, the main targets and programs to be fulfilled and the obligations undertaken by the centre to provide a given quantum of financial assistance and by each state to find its share of resources and to observe the agreed priorities.

5. **Fifth Stage:**

In this stage, the Planning Commission on the basis of detailed discussions with state governments comments from organised bodies and more detailed recommendations of the various Working Groups and panels prepares a fresh Memorandum in which it brings together the principle features of the plan, the policy directions to be stressed and the issues which may require further consideration before report on the Plan is finally drawn up. This Memorandum is then submitted to the Central Cabinet and the National Development Council for consideration.

6. **Sixth Stage:**

In the sixth stage, the Planning Commission on the basis of the conclusions reached on the Memorandum by the National development Council prepares the final report on the Five Year Plan. This is detailed report containing the objectives, programmes and projects, in the plan. This report in again commented upon in draft by the Ministers at the centre and by the state Governments and finally submitted to the Cabinet and the National Development Council for final approval. With the approval of Council, the report is published and presented to Parliament, by the Prime Minister. After discussion lasting for several days, each house of Parliament accords its general approval to the plan and gives a call to the nation for its implementation and for achievement of the objectives and targets embodied in it.

2.6 Role of Planning Commission:

Elementary economic planning, deriving the sovereign authority of the state, first began in India in 1930 under the British Raj and the colonial Government of India formally established a Planning Board that functioned in 1944. Private industrialist and economists formulated at least three development plans in 1944.

1. After India's independence a formal model of Planning was adopted and the Planning Commission reported directly to the Prime Minister of India. Accordingly, the 'Planning Commission' was set up on 15 March 1950 with Prime Minister Jawaharlal Nehru as the chairman. Planning Commission The planning commission is a non-statutory, non constitutional body.
2. The Planning Commission was set up by the Union Government to promote rapid rise in the standard of living of Indian people by efficient exploitation of national resources increasing production and offering opportunities to all for employment in the service of the community.
3. The Planning Commission has been shouldered the responsibility of making assessment of all resources in the country, augmenting deficient resources, formulating plans and the most effective and balanced utilisation of resources and determining priorities.
4. The Planning Commission works under the overall guidance of the 'National Development Council', India's Prime policy-making body which guide the nation on the development process.
5. The commission advises and provides guidance for the formulation of India's Five Year Plans, Annual plans and state government plans. It also monitors plan programs, projects and schemes.
6. The Planning Commission plays an integrative role in the development of a holistic approach to the policy formation in critical areas of human and economic development.
7. In the social sector, schemes require co-ordination and synthesis like rural health; drinking water, rural energy needs, literacy and environment protection have yet to be subjected to co -ordinate policy formulation. It has led to multiplicity of

agencies. As integrated approach can lead to better results at much lower costs. The commission concentrates on maximising output by using our limited resources well.

8. Instead of looking for mere increase in plan outlays, the efforts are to look for an increase in the efficiency of utilisation of the allocations being made.

9. With the emergence of several constraints on available budgetary resources, the resource allocation system between the states and Union Ministers is under strains. The planning commission studies these issues and solves the problems associated with it.

10. This requires the commission to play mediatory and facilitating role, keeping in view the best interest all concerned. It has to ensure smooth management of change and help in creating a culture high productivity and efficiency in government.

11. The key to efficient utilisation of resources lies in the creation of appropriate self-management organisation at all levels. In this area, the Planning Commission attempts to play a systems change role and provide consultancy with in government for developing bettor system.

12. In order to spread the gains of experience more widely, the Planning Commission also disseminates information.

2.7 Role of National Development Council:

The National Development Council (NDC) was set up for the first time in 1951 with a view for bringing about a co-ordination of plans between Central Government and state Governments. In its original form it comprises the Prime Minister as the Chairman, Chief Ministers of the state Governments and the members of the Planning Commission as members of National Development Council. The permanent constitution of the Planning Commission comprises of eight member's viz. chairman, Vice Chairman, four Fulltime members, secretary and deputy secretary.

Prime Minister of India is the ex-officio Chairman and remaining seven members consist of central Ministers, economist, bureaucrats etc. Apart from these permanent members, other part-time members and experts are also appointed as per requirement. No hard and fast rule is there about such appointments. The economic policy is not framed only merely by Planning Commission but as decentralisation policy adopted, India's planning is deemed to be 'Multi-level planning.'

Initially plans are made at district level then at state level and finally national economic policy is framed for the entire country. This policy is the instigation of various plane and state and Union Government. The economic Draft policy so checked out through various processes is published for public opinions and recommended as well as tabled at both the houses. After considerable discussion, the draft is submitted to National Development Council for sanction wherein it receives its final accord.

So long as the same political party remained in power at the centre as well as in the state Governments, the National Development Council did not perform any effective role and only a general election when different political parties acquired power to become more effective and centralised planning became very difficult to achieve.

The Study team made a number of recommendations regarding organization and functions of the Council which were endorsed by the Reforms Committee and were later on accepted by the Government of India with minor modifications by a resolution issued on 7 October 1967. In the reconstituted Council, the secretary of the Planning Commission acts as Secretary to the National Development Council and the Commission is expected to provide such administrative and other support as may be necessary.

The revised functions of India National Development Council are:

1. To strengthen and mobilize the efforts and resources of the nation in support of the plan to promote common policies in vital spheres and to ensure the balanced and rapid development of all parts of the country.
2. National Development Council looks into review of the working of the Notational Plan from time to time.
3. The National Development Council recommends measures for the achievement of the aims and the targets set in the National Plan, including measures to secure the active participation and co-operation of the people, improve the efficiency of the administrative services, ensure the fullest development of the less advanced regions and sections of the community and, through sacrifice born equally by all citizens, build up the resources for national development.
4. The Lt. Governor and the Chief Executive Councillor of the remaining Union Territories. It also provided that other Union and state Ministers may be invited to participate in the deliberations of the National Development Council.
   A. To prescribe guidelines for the formation of the National Plan, including the assessment of sources for the Plan;
   B. To consider the National Plan as formulated by Planning Commission;
   C. To consider the important questions of social and economic policy affecting national development.

In this way, the National development Council has emerged as the top-most policy laying agency in the Government. The National Development Council played vital role in the planning Process of India.

2.8 Summary

Economic development has been closely linked with planning. Planning has become a craze in modern times, especially in under-developed and developing countries Raymond Burrows remarks, “Planning as a modern panacea is as perplexing to a pedant as it is popular to a protagonist”.

Planning is beneficial for both the developed and underdeveloped countries for the developed countries to maintain or accelerate growth already achieved and for underdeveloped countries to overcome poverty and to raise the standard of living.

Unless the underdeveloped countries wake up and follow the planning, they will be left far behind in the race of economic well-being. In 1937, the Indian National Congress set up the National Planning Committee under the chairmanship of Late Pandit Jawaharlal Nehru. But owing to the great political changes, the work of the committee remained suspended from 1944 to 1946. The committee submitted its report in 1949 The development planning in India is being implemented by structuring five year plans. The design and implementation of planning passes through Process of planning in India takes place in six stages The National Development Council (NDC) was set up for the first time in 1951 with a view for bringing about a co-ordination of plans between Central Government and state Governments. In its original form it comprises the Prime Minister as the Chairman, Chief Ministers of the state Governments and the members of the Planning Commission as members of National Development Council. The permanent constitution of the Planning Commission comprises of eight member's viz. chairman, Vice Chairman, four Fulltime members, secretary and deputy secretary.

Exercise 2.9

Q1 Explain the Meaning and Need of Planning in economic development?

Q2 Define planning. Discuss the process of planning in India?

2.10 Glossary

- **Planning Commission:** The machinery established for making draft five years along with finalised and implementing five year plans.

- **National Development council:** The body of reviewing the draft plan and making some suggestion and sanctioning in five year plans.

- **One year plan:** Sometimes five year planning is not possible at that time plan is make for one year only. It is called as one year plan.

2.11 Suggested Readings

1. I.C. Dhingra, A.K. Garg,(1983) Economic Development and Planning, S. Chand &Sons, New Delhi.
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3. A. N. Agarwal: Indian Economic Problems: Development and Planning, Wishva Prakashan, New Delhi (2003)
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LESSON - 3

ECONOMIC PLANNING –II

Structure

3.0 Objectives

3.1 Introduction

3.2 Indian planning

3.2.1 Objectives of Indian Planning

3.3 Evaluation of Indian Planning

3.3.1 Achievements of planning in India

3.3.2 Failures of Indian planning:

3.4 Summary

3.5 Exercise

3.5 Glossary

3.0 Objectives

The study of this chapter will enable you:

- To understanding major objectives of planning in India.
- To take review the major, achievements and failures of planning in India.

3.1 Introduction

For having systematic economic development, India has accepted the way of economic planning since 1951. By realising the various adverse impacts of non-planned economic development process, India has emphasised the way of planning economic development for developing it's under developed economy. Economic planning has helped in achieving some important objectives of socio-economic development in India. The term plan or a planning is used today everywhere. To plan means to think about future and to do the things accordingly. Every man and women have to plan in his daily life. Without plan or a planning nobody can achieve good deal of successes. So planning in every area of life is considered very important. In the last chapter we have taken the review of certain aspects of planning process in India. In this chapter we will deal with major objectives of planning in India. An overall evaluation of economic planning in India is explained for assessing the major objectives determined at the beginning of economic planning.

3.2 Indian planning

Govt. of India adopted planning technique from 1951. From 1950-51 to 2011-12. Govt. of India implemented totally eleven five year plans and five one year plans which are shown in following table –

Table 2.1

Plans	Period
1st five year plan	1951-56
2nd five year plan	1956-61
3rd five year plan	1961-66
Annual Plan for 3 years	1966-67 to 1968-68
4th five year plan	1969-74
5th five year plan	1974-79
6th five year plan	1980-85
7th five year plan	1985-90
Annual Plan for two years	1990-91 to 1991-92
8th five year plan	1992-97
9th five year plan	1997-2002
10th five year plan	2002-2007
11th five year plan	2007-2012
12th five year plan	2012-2017

3.2.1 Objectives of Indian Planning:

1) Economic Growth:

The First objective of Indian planning is to achieve economic growth approximately 5% per annum increase in the net national product. Economic growth has always remained in focus as the main objectives. There are number of problems which are faces by the Indian Economy. It has often been assured that the gain of economic growth would percolate downwards and thus property, inequalities would be decline and poverty problem would automatically be solved. The growth of employment was also taken for granted. High priority to economic growth in Indian plans looks justified from beginning. The economy of the country had received severe jolt under the British rule on account of massive drain of wealth from India. In this period while the European countries developed, India suffered under development. So, once this country got Independence, the major choice of decision makers was for economic growth. It was shown in a following table.

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Table 2.2

Plans	Growth rate Objectives/target
I	2.1
II	4.5
III	5.6
IV	5.7
V	4.4
VI	5.2
VII	5.0
VIII	5.6
IX	6.5
X	8.00
XI	9.00
XII	8.20

2) Self-reliance:

Self reliance means independent from other. But in case of country like India self reliance is elimination of dependence on foreign aid and capital. But India was dependent on foreign countries at least in these respects. First, despite the fact that Indian economy was agricultural the output of food grains was not adequate and the country imported food grains from the U.S.A. and some other countries. Second, on account of virtual non-existence of basic industries, transport facilities, machine tools, engineering industries, electricity plants, other capital goods had to be acquired from developed countries. Third and last is saving rate being low, foreign aid had to be obtained in order to step up the investment rate in the country. In planning period our import was increased but export doesn't increase sufficiently. So Balance of payment disequilibrium was increased, it was affecting the countries dignity and economic position. So our planners considered about this objectives.

It is now seen that in the field of self reliance, India succeed in almost self-sufficient in food and in case of production of iron and steel, machine tools heavy engineering industries our country has made considerable advancement towards self-reliance.

3) Increase in Employment:

One of the main objectives of the Plan is better utilization of man power resources and increasing employment opportunities. Measures have been taken to provide employment to millions of people during plans. Generally unemployment means people able and willing to work in a prevailing wage rate but not get adequate work. Self - employment was given due importance in the fifth plan. Facilities for self employment have been increased. Some of the different employment generation schemes adopted by the government of India were S.F.D.A., M.F.A.L., E.G.S. IRDP, Swarnjayanti Gram

Rojgar Yojana, Jawahar and Nehru Yojana, Prime Minister Employment assurance scheme etc.

4) Reduction of economic Inequalities:

Another objective of Indian planning is a reduction of economic inequalities from the country. These inequalities are symbols of exploitation and injustice in the country. However in case of priority it always got a very low place. According to experts, Indian plans have never made any serious attempt to redistribute income and wealth. From fourth plan onwards government of India gave a priority to this objective. In its opinion, fiscal measures at best can reduce disposable income at the top and thus their importance for eliminating income inequalities is limited. Number of programmes, were started for improving the economic conditions of the poor. From rapid growing big business houses like Tata, Birla, Dalmiya, Jain, Chougule etc, it is obvious that income inequalities have been increasing in urban areas as well. Anti- monopoly measures can reduce inequalities in income and wealth, but from this point of view, Government passed the act like M.R.T.P. and adopted progressive tax system policy etc.

5) Elimination of Poverty:

Poverty problem is also main problem of under developed countries. India is also facing the problem like poverty. Poverty means a person doesn't fulfils his minimum needs i.e. food clothing, shelter, safe drinking water, education, health etc. Poverty can be two types one is absolute poverty and second is relative poverty. In our country both types are prevailing. So our planners and government has given a priority as the elimination of poverty in some plans. From first to Eleventh five year plan, Government has given more attention to the cottage and small scale industries, agricultural development, social security programmes, welfare programmes for labour farmers etc. under fifth five year plan. 'Garibi Hatao' programmes has been introduced under these programmes.

6) Modernization:

After Independence, Indian economy required structural and institutional changes to cope with the modern world. So our planners adopted modernization as an important objective of planning up to sixth plan this objective was never on the list of any plan. But in the Sixth, Seventh, eight and eleventh five year plans modernization was the main objective. By modernization we mean to improve existing industrial, agricultural, transport, communication system of the country.

Modernization of banking sector and public sector is also very important for the development of the country. In case of modernization our country like India made considerable progress in all means and all sectors of the economy.

7) Increase Standard of Living:

The another objective of the plan is to increase the standard of living of the people so that their economic prosperity may grow. Increase in standard of living depends on so many factors; for instance, more per capita income, price stability, equal distribution of income etc.

8) Comprehensive Development:

All round development of the economy is another objective of the Five Year Plans. Development of all economic activities, namely agriculture, industry, transport, power etc. Has been aimed at, but in every Plan development of each of these sectors has not been given equal importance. First Plain laid emphasis on the development of agriculture. Second Plan gave priority to the development of heavy industries. Sixth Plan gave equal importance to the development of agriculture and industry but emphasis on industrial development was relatively more. Seventh plan laid maximum stress on the development of energy and power. Subsequent plan land stress on 'inclusive growth'.

9) Regional Development:

Different regions of India are not equally developed from the point of view of their economies. Punjab, Haryana, Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh etc. are relatively more developed economically. But U.P., Bihar Orissa, Nagaland, Meghalaya, are economically backward regions is one of the objectives of Five- Year Plans to achieve regional equality.

10) Economic Stability:

Achieving of the objective of economic stability is necessary to maintain the growth rate. Aim of the Five Year Plans also is to attain economic stability. It implies absence of frequent and excessive boom and depression periods. If the price levels rises very high or falls very low, then the entire economy have to face the difficulties. Economic stability has been one of the objectives of Five Year Plan in India. Some rise in prices in inevitable as a result of economic development, but it should not be excessive. Since the beginning of Second Plan, the prices have been rising considerably.

11) Social Justice:

Another objective of every plan has been to promote social justice. It can be made possible in two ways. One is to reduce the poverty of the poorest sections of the society. According to seventh plan a person is poor if spends on consumption less than Rs. 132 per month in rural areas and Rs. 152 per month in urban areas at 1989 prices. About 30 per cent of Indian population lives below poverty line. Removal of the poverty was the main objective of seventh Plan; to achieve this objective Minimum Need Programme was adopted. The second aspect of social justice is to reduce economic inequality. It is made possible by equitable distribution of wealth of wealth and property.

3.3 Evaluation of Indian Planning:

Indian planning is now completed sixty two years. So it is very essential to have an evaluation or to see achievement and failures of the plans. Actually planning is a process, under which some objectives are fixed and targets are also fixed and government authority or planning commission implemented all the planning process. Financial support is also essential. Russian Government adopted planning techniques firstly in 1928 and made spectacular achievements within twenty years.

3.3.1 Achievements of planning in India:

1) **Increase in national and per capita Income:** One of the main objectives of Indian planning is to increase national and per capita income. In planning era Indians national and per capita income increased considerably.

Following table shows Percentage growth of the income up to 2011-12.

Table 2.3
National Income India

Plan	Percentage Growth of National Income
I	3.6
II	4.1
III	2.5
IV	3.3
V	5.0
VI	5.4
VII	5.8
VIII	6.7
IX	5.5
X	7.8
XI	7.9
XII	7.1

Source- CSO, new Delhi

From table 2.3 shows that, decade wise statistical information between 1950- 51 to 2011-2012. Here net National Income and per capita Income increased considerably. In the eleventh plan, growth rate of national income has started increasing at much faster rate.

2) Increased Agricultural Production: contribution of plans in the development of agriculture has been of two kinds (a) land reforms and (b) technological development. Although land reforms could not be implemented fully, yet limited land reforms have created a congenial atmosphere for scientific cultivation. In 1996, great stress was laid on the technological development of agriculture. It culminated in Green Revolution. During the periods of plans, production of food grains has increased more than four-fold. In 1951-52, production of food grains was 550 lakh tonnes. In 2011-12, it increased to 2,574 lakh tonnes. In 1950-51, the area under irrigation was 17 per cent; it increased to 45 per cent in 2009 -10 during the period of planning, growth rate of agriculture production was 2.7 per cent per annum on the average. During the period of planning, agriculture production has increased very much. Per hectare production has increased on account of the application of scientific methods of cultivation, improved variety of seeds and chemical fertilizers.

3). Increased Industrial Production: During five year plans, the Government had invested heavily on industrial sector especially major and prime industries like Iron and steel, Power, transport, communication, chemical industries, metallurgical industries etc. As a result, there has been considerable progress in such industries as steel, aluminium, engineering goods, chemicals, fertilizers, petroleum products etc. So increase in industrial production became helpful to employment activities in the economy and total production, consumption and welfare of the country. There has been a diversification and modernization of industries. Industrial production capacity has increased tremendously. As a result of planning, industrial production has witnessed considerable rise. In the eleventh plan, industrial production growth rate was 6.6 per cent. In 2011-12, industrial production growth rate came down to 3.5 per cent, due to glabal slowdown. In the year 2012-13, growth rate in industrial production was 3.1 per cent.

4) Infrastructural Development: Infrastructure includes, means of transport and communication, irrigation facilities and the generation capacity of power etc. During the period of planning, infrastructure of the economy has also developed considerably, during Plans, 9,000 km. Long new railway lines were laid and more than 8,000 km. Railway lines were electrified. Length of pucca roads increased from 1,57,000 kms to 17,72,000 kms. Goods carried by railway wagons increased from 9.3 crores tonnes in 1950-51 to 33 crores tonnes in 1990-91. Shipping increased from 3.1 lakh CRT in 1990-91. Power generation capacity in 1950-51 was 23 lakh kw which increased to 660 lakh kw. In 190-91. Area under irrigation increased from 226 lakh hectares to 792 lakh hectares.

5) Development of International Trade: Since 1950, in planning era Indians international trade had increased. The size and composition of our imports and exports also increased. Before planning period India imported food grains, manufacturing goods etc and exported raw materials, tea, coffee, cashew etc. In half century of planning India's dependency on foreign countries for the import of food-grains and capital goods has declined. This has leads to the policy of import substitution. In short, Indians foreign trade had increased and in the same time composition of exports has changed in favour of manufactures mineral ores and engineering goods.

6) Development of Science and Technology: After Independence especially under planning period India's development of science and technology also upper level. Our management technique, physics, chemistry, space science became advanced. Now India has been providing experts services in science and technology to the countries like middle East and African countries. This is matter of proud for the country.

7) Increase in standard of living: Another achievement of Indian planning is increased standard of living of the people in the country. Before planning period per capita availabilities of essential goods such as Sugar, Milk, food grains, clothes, edible oil etc, is to be small quantity but it has to be increased in planning period for the development of economy.

8) Development of Education: One of the great achievements of Indian planning said by the thinker is Educational Development since 1950. During planning period primary, secondary, higher secondary educational facilities had increased subsequently. India ranks third country in the world in the terms of educational system. The total number of students enrolled in colleges and universities increased from 3.6 lacks to 43 lacks from 1951 to 1997.

3.3.2 Failures of Indian planning:

For out of a size decades near about five decade congress Government had ruling in centre. The Government have been proclaiming measures to achieve growth with justice, abolition of poverty or Garibi hatao, removal of exploitation and inequality of incomes etc. But it is not slogans. Indian planning has achieved significant success in various areas, but planning also failed in some area e.g. shown in following ways.

1) Failure in Elimination of Poverty: The basic objective of planning is the provision of national minimum level of living. From first plans to eleventh plan Government of India adopted number of programmes for poverty elimination. But poverty has not eliminated completely.

2) Failures to Solve Unemployment Problem: Generally, poverty and unemployment are the co-related problems. The widespread unemployment is another important failure of our planning. According to planning commission, the backlog of unemployed Persons were 5.3 million at the end of first plan and 7.5 million at the end of the Eight plan. Taking unemployment and under employment together, at the beginning of the Tenth plan i.e. 2001-02, 9.2 percent of the labour force or 35 millions person were unemployed. In December 2010, number of registered unemployed increased to 3.88 crores.

3) Failures to Reduce Inequalities: During planning period, the redistribution of income in favour of poor people is unequal nature. In the year 1991 also 50% of share of national Income owned by only 10% of the people and 40% of income owned by 70% of the people, In planning period Govt. adopted policy like Abolition of Jamindari system. redistribution of land etc. But distribution of income and wealth is an uneven. This is important failure of planning. According to human Development Report 2009, top 10 percent of India’s population is controlling 31.1 per cent of its national income, whereas bottom 10 per cent of its population is controlling just 3.6 per cent of national income.

4) Failure to check black money: During planning period, various controls have been made for speculation. But shortage, black-marketing, speculation don’t control to the Government. The fiscal measures adopted by the Govt. failed to check black money. This is also another failure of planned economy.

5) Failure of reduce concentration of Economic Power: One of the objectives of our planning is to reduce concentration of economic power. But in actual practice big business houres like Tata, Birla, Jain, Ambani, Chougule families have became very rich and richer. This is also important failures of Indian Planning-

6) Inefficiency: During planning period, number of programmes for employment generation and rural development etc. are to be started. But in actual practice number of programmes are working inefficient manner. So planning achievement is limited. Plans are well thought out but their implementation is poor because of defective administration, dishonesty, vested interest, red-tapism, etc. This is also another failure of Indian planning.

7) Unbalanced growth of Different Regions: Despite 62 years of planning, there has been unbalanced growth of different regions of the country. Resources of some states like Goa, Haryana, Maharashtra, Punjab, Kerala and Gujarat have been properly exploited and so their economic condition has improved significantly but resources of many other states like Bihar, Odisha, Chattisgarh, MP, Rajasthan, UP, Jharkhand, Assam remain under exploited. So economic Planning has failed to achieve balanced regional development in the economy.

8) Poor Development of Infrastructure: Economic Planning has failed to develop infrastructure in the country. Still, India is lacking in power generation, transportation, quality roads, fast railway tracks, airways etc.

From the above discussion we can conclude that, India’s planning policies and strategy were sound but there was crisis of implementation due to the existence of a gap between the theory and practice of socialist planning.

3.4 Summary

India has accepted the way of economic planning since 1951. By realising the various adverse impacts of non-planned economic development process, India has emphasised the way of planning economic development for developing it’s under developed economy. Economic planning has helped in achieving some important objectives of socio-economic development in India. The term plan or a planning is used today everywhere. To plan means to think about future and to do the things accordingly. Every man and women have to plan in his daily life. Without plan or a planning nobody can achieve good deal of successes. So planning in every area of life is considered very important. In the last chapter we have taken the review of certain aspects of planning process in India. In this chapter we will deal with major objectives of planning in India. An overall evaluation of economic planning in India is explained for assessing the major objectives determined at the beginning of economic planning.

3.4 Exercise

Q1 Explain the major objectives of Indian Economic planning?

Q2 Discuss the achievements of economic planning in India?

3.5 Glossary

- **Plan**: A plan is typically any diagram or list of steps with timing and resources, used to achieve an objective.
- **Planning**: It implies the working out of sub-components in some degree of elaborate detail.

3.6 Suggested Readings

1. Datta and Sundaram “ “Indian Economy”, S. Chand and Company, New Delhi, 63rd edition 2011.

2. Mishra and Puri : “Indian Economy”, Himalaya Publishing House, Mumbai, 25thEdition, 2007.
3. A. N. Agarwal : Indian Economic Problems : Development and Planning, Wishva Prakashan, New Delhi (2003)
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LESSON - 4

NATIONAL INCOME OF INDIA: CONCEPT, MEASUREMENT AND GROWTH

Structure

4.0 Introduction

4.1 Objectives

4.2 Definition of National Income

4.3 Importance of National Income

4.4 Measures of National Income

- 4.4.1 Gross National Product (GNP)
- 3.4.2 Gross Domestic Product (GDP)
- 4.4.3 Net National Product (NNP)
- 4.4.5 National Income: Some Accounting Relationships
- 4.4.6 Per Capita Product/ Income (PCI)

4.5 Methods of Measuring National Income

- 4.5.1 Net Output or Value-Added Method
- 4.5.2 Factor-Income Method
- 4.5.3 Expenditure Method

4.6 Choice of Methods

4.7 Trends of National Income in India

- 4.7.1 National Income Estimation
- 4.7.2 Post Independence Period Estimation
- 4.7.3. Methodology used in India
- 4.7.4 Growth in National Income of India
- 4.7.5 Important changes in composition of national income

4.8 Difficulties in the Measurement of national Income

4.9 Let us Sum up

4.10 Exercise

4.11 Answers to ‘Check Your Progress’

4.12 Suggested Reading

4.0 Objectives

- To define national income and its importance
- To discuss various methods of measuring national income in India
- To show the growth and trends in national income of India

4.1 Introduction

We have so far been concerned with all aspects of Indian economy during the Colonial Period. This lesson onwards, we will deal with post-independence aspects of Indian economy. One of the most important concepts used in analyzing and understanding environment of the economy include (i) the level and trends in national income, (ii) factors determining national income, (iii) factors and forces leading to business cycles, (iv) the trend in general lend of price, especially inflation, (v) international economic aspects, and (vi) government policies, especially fiscal and monetary policies. In this lesson, we will discuss the meaning, methods of measuring national income and the growth of national income of India.

4.2 Definition of National Income

National income is the final result of all economic activities of a nation valued in terms of money. The level of national income determines the level of aggregate demand for goods and services. According to Marshal, “The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities material an immaterial including services of all kinds”.

Therefore, the above definition makes it clear that national income is the monetary measure of

- the net value of all products and services
- In an economy during a year
- Counted without duplication.
- After allowing for depression
- Both in the public and private sector of products and services
- In consumption and capital goods sector
- The net gains from international transactions.

Its distribution pattern determines the pattern of demand for goods and services, i.e., how much of which good is demanded. The trend in national income determines the trends in aggregate demand, i.e., the demand for the goods and services. Conceptually, national income is the money value of final goods and services produced in an economy in a year.

Closed economy is an economy which has no economic transactions with the rest of the world. Economic activities generate a large number of goods and services, and make net addition to the national stock of capital. These together constitute the national income of a 'closed economy'.

In an **'open economy'**, national income includes also the net results of its transactions with the rest of the world (i.e., exports less imports).

4.3 Importance of National Income

1. With national income, we can chart the movement of country from depression to prosperity.

2. The economic welfare of community can be measured with national income.

3. It helps in finding standard of living.

4. It helps in determining the pace of economic development of the economy.

5. It helps to understand the contribution made by different sectors to the economy.

6. It helps in development planning of a country.

7. It provides information of the savings, consumption an divestments structure of the economy.

4.4 Measures of National Income

Though there are various concepts of national income that you are going to study in detail in your second Semester in Macro Economics, we will discuss them briefly here.

4.4.1 Gross Domestic Product (GDP)

Gross Domestic Product (GDP) measures the total value of final output of goods and services produced within the country's domestic economy by residents and non-residents.

Gross Domestic Product = value of gross domestic output - value of intermediate consumption

4.4.2 Gross National Product (GNP)

GNP is comprised of the value of GDP plus factor-income accruing to residents from abroad, less the income earned in the domestic economy accruing to persons abroad. In other words, GNP measures the total domestic and foreign output claimed by residents of a country.

Gross National Product at Market Price = Gross domestic product at market price + Net factor income from abroad.

4.4.3 Net Domestic Product (NDP)

Net domestic product is the difference been GNP minus depreciation (reduction in the value of assets through wear and tear) and net factor incomes from abroad.

Net Domestic Product = GNP - Depreciation - Net factors income form abroad

4.4.4 Net National Product (NNP)

Net National Product (NNP) is GNP minus depreciation.

NNP at MP = GNP – Depreciation

All these estimates made are at market prices. The market prices are made up of costs of production, indirect taxes and subsidies.indirect taxes add to and subsidies subtract from costs. If then we deduct indirect taxes and add subsidies to the various estimates, the resulting value will equal to cost of producing goods and services. Thus we have two types of estimates: at market prices and at factor cost.

NNP calculated at factor cost is called National Income.

4.4.5 National Income: Some Accounting Relationships

(a) Accounting Indentities at Market Price

GNP ≡ GNI (Gross National Income)

GDP ≡ GNP less Net Income from Abroad

NNP ≡ GNP less Depreciation

NDP (Net Domestic Product) ≡ NNP less net income from abroad

(b) Some Accounting Identities at Factor Cost

GNP at factor cost ≡ GNP at market price less net indirect taxes

NNP at factor cost ≡ NNP at market price less net indirect taxes

NDP at factor cost ≡ NNP at market price less net income from abroad

NDP at factor cost ≡ NDP at market price less net indirect taxes

NDP at factor cost ≡ GDP at market price less Depreciation

4.4.6 Per Capita Product/ Income (PCI)

PCI refers to to the average income of the country. It is arrived by dividing the national income of a country by its population. An increase in the PCI indicates an increase in the availability of goods and services and for this reason is often used as an index of welfare of the people.

4.5 Methods of Measuring National Income

For measuring national income, the economy through which people participate in economic activities, earn their livelihood, produce goods and services and share the products is viewed from three different angles.

(1) The national economy is considered as an aggregate of producing units combining different sectors such as agriculture, mining, manufacturing, trade and commerce, etc.

(2) The whole national economy is viewed as a combination of individuals and households owning different kinds of factors of production which they use themselves or sell factor-services to make their livelihood.

(3) The national economy may also be viewed as a collection of consuming, saving and investing units (individuals, households and government).

Following these notions of a national economy, national income may be measured by three different corresponding methods:

(1) **Net product method**—when the entire national economy is considered as an aggregate of producing units;

(2) **Factor-income method**—when national economy is considered as combination of factor-owners and users;

(3) **Expenditure method**—when national economy is viewed as a collection of spending units.

4.5.1 Net Output or Value-Added Method

This is also called the *output method,* the inventory method or the census method. It consists of finding out the market value of all the goods and services produced during a year. According to this method the economy is classified into different sectors, namely *Direct sector*: in this sector the value of services of such professions like doctors, dramatics, soldiers, politicians, etc., are taken by equating to their services. *Agriculture industry International transaction sector*: in this sector, we take into account the value of goods exported and imported payment from abroad, payments to other countries. In each sector we make an inventory of goods produced and find out the end product making an addition to the value of goods. The value added method can be followed in order to avoid double counting. The value added of a firm is its output less whatever it purchases from other firms such as raw materials, and other inputs.

This method has a merit because it helps us to have a comparative idea of the importance of various activities in economy like agriculture, manufacturing, trade, etc. However in advanced countries this method may be successful as it is very easy to get data from government records. But in under developed countries this method may give rise to various problems like imputation of money values to non- monetized sector.

4.5.2 Factor-Income Method

This method refers to the gross national income obtained by adding together wages and salaries, interests, profits and rents of persons and institution and including government incomes are earned either from property or through work. To arrive at the totality of income of nation, the following procedure will be adopted:

a) Net rents include the rental value of owner occupied houses.

b) Wages, salaries and all such earnings of person employed, pensions are excluded.

c) Earnings by way of interest.

d) Income of joint stock companies.

e) Income from overseas investment.

This method gives national income at factor cost.

4.5.3 Expenditure Method

This method is also called the *flow of product approach* (by American economist Samuelson) or the *outlay method*. Here we take into account the expenditure on finished products-

- Expenditure by consumers on goods and services.
- Expenditure by producers on investment of goods.
- Expenditure by government on consumption as well as capital goods.

To this we add money received from abroad through trade and other payments. This figure thus arrived at will give us GNP. The merit of this method is that it believes in the identity between national expenditure, income and total product. Whichever method we use the result should be more or less the same. In other words, they can be used to cross-check reliability of each other.

4.6 Choice of Methods

As discussed above, there are three standard methods of measuring the national income, viz., net output (or value added) method, factor-income or factor cost method and expenditure method. All the three methods would give the same measure of national income, provided requisite data for each method is adequately available. Therefore, any of the three methods may be adopted to measure the national income. But all the three methods are not suitable for all the economies simply for non-availability of necessary data and for all purposes. Hence, the question of choice of method arises.

The two main considerations on the basis of which a particular method is chosen are:

(i) the purpose of national income analysis, and (ii) availability of necessary data. If the objective is to analyze the net output or value added, the net output method is more suitable. In case the objective is to analyze the factor-income distribution, the suitable method for measuring national income is the income method. If the objective at hand is to find out the expenditure pattern of the national income, the expenditure or final products method should be applied. However, availability of adequate and appropriate data is a relatively more important consideration is selecting a method of estimating national income.

Nevertheless, the most common method is the net product method because: (i) this method requires classification of the economic activities and output thereof which is much easier than to classify income or expenditure; and (ii) the most common practice is to collect and organize the national income data by the division of economic activities.

Briefly speaking, the easy availability of data on economic activities is the main reason for the popularity of the output method. It should be however borne in mind that no single method can give an accurate measure of national income since the statistical system of no country provides the total data requirements for a particular method. The usual practice is, therefore, to combine two or more methods to measure the national income. The combination of methods again depends on the nature of data required and sectoral break-up of the available data.

4.7 Trends of National Income in India

The first attempt to calculate National Income of India was made by Dadabhai Naroji in 1867 -68. This was followed by several other methods. The first scientific method was made by Prof. V.K.R Rao in 1931-32. But this was not very satisfactory. The first official attempt was made by Prof. P.C. Mahalnobis in 1948-49, who submitted his report in 1954.

- the work on National income in India had started in the 19^{th} century, by Dadabhai Naoroji.
- a number of researches had taken place since 1900.
- V.K.R.V. Rao made the first national income estimate on a scientific way for the year 1931-32.
- Government of India also prepared the estimates for the year1948-49.
- 1949- The national income committee was formed.

The Central Statistical organization (CSO) was entrusted with the work of estimation and the first official paper "White Paper" was released in the year 1956. Now it is knows as national accounts statistics.

4.7.1 National Income Estimation

National Income estimation can be studied under two categories:

1. Pre-independence period estimation
2. Post independence period estimation

Pre-independence period estimation: several estimates were prepared in the British period.

A) Dadabhai Naoroji, Wadia & Joshi: estimated the value of output of the agricultural sector and then added certain percentage as the income to the non-agriculture sector. This was devoid of any scientific basis

JR hicks, M Mukherjee & SL Ghosh: calculated the rates of growth per capita income for the period:

Time Period	Rate of Growth
1860-1885	1.1
1885-1905	-0.3
1905-1925	1.3
1925-1950	-0.1
1860-1945	0.5

The Indian economy presents a picture of stagnation over a long period with a growth rate of 0.5% during the British rule.

4.7.2 Post Independence Period Estimation

Soon after independence the Government of India appointed the National income committee (NIC) in August 1949 to compile the national income estimates.

1951- First report appeared

1954- Final report, a landmark in history as it was for the first time even that National Income data was provided for whole India.

In 1967, the task of estimating national income was given to the Central Statistical Organization (CSO). Till 1967, the CSO had followed the methodology laid down by the NIC. Thereafter, the CSO adopted a relatively improved methodology and procedure which had become possible due to increased availability of data. The improvements pertain mainly to the industrial classification of the activities. The CSO publishes its estimates in its publication, Estimates of National Income.

4.7.3. Methodology used in India

Currently, net output and factor income methods are used by the CSO to estimate the national income of the country. The output method is used for agriculture and manufacturing sectors, i.e., the commodity producing sectors. For these sectors, the value added is adopted. Income method is used for the service sectors including trade, commerce, transport and government services. In its conventional series of national income statistics from 1950-51 to 1966-67, the CSO had categorized the income 13 sectors. But, in the revised series, it had adopted the following 15 break-ups of the national economy for estimating the national income; (i) Agriculture; (ii) Forestry and logging; (iii) Fishing; (iv) Mining and quarrying; (v) Large-scale manufacturing; (vi) Small-scale manufacturing; (vii) Construction; (viii) Electricity, gas and water supply; (ix) Transport and communication; (xii) Real estate and dwellings; (xiii) Public Administration and Defence; (xiv) Other services; and (xv) External transactions. The national income is estimated at both constant and current prices.

4.7.4 Growth in National Income of India

Economic growth usually refers to quantitative rise in National Income and Per Capita Income of an economy during a period of time. To understand economic growth in India, first we examine the National Income trends and then look into the trends of Per Capita Income in India during the last sixty years.

Trends in National Income

Financial Year	Gross Domestic Product (in Rs. Cr) at 2004-05 Prices	Gross Domestic Product - % Growth Rate (YoY)
1951-52	286,147	2.33
1960-61	410,279	7.08
1970-71	589,787	5.01
1980-81	798,506	7.17
1990-91	1,347,889	5.29
1999-2K	2,246,276	7.59
2000-01	2,342,774	4.30
2010-11	4,937,006	9.32
2011-12	5,243,582	6.21
2012-13	5,503,476	4.96

Source: *CSO Estimates*

Annual Growth Rates of Gross National Income and Net National Income

year	Gross national income at factor cost at 2004-05 Prices	Net national income at factor cost at 2004-05 Prices	Per capita net National income at 2004-05 Prices
1951-52	2.5	2.9	1.2
1960-61	7.0	7.5	5.5
1970-71	5.5	4.5	2.2
1980-81	7.2	7.4	5.0
1990-91	5.1	4.9	2.7
2000-01	4.0	3. 7	1.8
2010-11	8.8	8.7	7.2
2011-12	6.4	6.1	4.7

Source: Central Statistics Office

The GSDP at constant (2004-05) prices for the year 2010-11 (Advance Esti mates) is esti mated at `75082.07 crore as against `69923.65 crore for 2009-10 (Quick Esti mates) reflecting a growth of 7.4 per cent. The estimated growth of 7.4 per cent in GSDP of the State for 2010-11 comprises of a growth of 6.1 per cent in Agriculture and Allied sector, 1.9 per cent in Industry sector and 10.0 per cent in Services sector.

The real national income of India has increased at an annual average rate of 4.5 per cent. The rate of growth initially decelerated over the years but has subsequently accelerated continuously.

During the first decade, real income went up by 3.8 per cent, this rate came down to 3.5 per cent in the 1960s, 3.1 per cent in the 1970s and 5.5 per cent in 1980s. In the first three years of the 1990s, the GDP grew at 4 per cent annually.

In the following four years, the growth rate jumped to 7.1 per cent but only to fall back to 5.2 per cent in the succeeding five years. The major breakthrough occurred and sustained during the period 2003-08; real GDP grew at 8.2 per cent annually in the period 2003-08.

The world economy went through an unprecedented crisis in 2008-09. The slowdown affected all the countries. By the end of the year 2008-09, India was rapidly returning to the buoyant years preceding 2008.

The economy recovered to grow at 8.0 per cent during 2009-10, and further 8.6 per cent during 2010-11, with projections of 9.0 per cent during 2011-12. The Prime Minister's Economic Advisory Council (PMEAC) lowered the economic growth projection for the year 2011-12 to 8.2 per cent from 9 per cent.

4.7.5 Important changes in composition of national income

Generally, an economy is divided into three major sectors viz primary, secondary and tertiary. With the development of an economy, the significance of primary sector declines while that of secondary and tertiary sectors increases. After independence India has also experienced such changes. The share of primary sector in GDP has declined from 41.54% in 1951-52 to around 12.02 per cent in 2011-12. Within the primary sector, the share of agriculture and allied activities in GDP has gone down from 57 per cent to around 15 per cent over these years. One thing is to be noted that it is a decline only in percentage share of agriculture in national income, the total volume of agriculture production is actually rising.

Sectoral Distribution of Gross Domestic Product (in %)

Financial Year	Agriculture - Share to Total GDP	Industry- Share to Total GDP	Mining and Quarrying-]Share to Total GDP	Services-Share to Total GDP
1951-52	41.54	16.69	2.02	29.63
1960-61	39.41	20.09	2.16	30.19
1970-71	34.16	23.62	2.20	33.26
1980-81	29.82	25.66	2.62	37.65
1990-91	24.94	27.63	3.48	42.55
1999-2000	19.68	26.87	3.02	49.85
2000-01	18.76	27.32	2.97	50.37
2010-11	12.29	28.23	2.21	57.32
2011-12	12.02	27.51	2.06	58.39
2012-13		27.03	1.98	59.29

Source: *CSO Estimates*

The growth has fallen in percentage terms because industrial output and value of products in the service sector has grown faster than the pace of growth of agricultural production. The share of the secondary sector has risen from 16.69 per cent in 1951-52 to. 27.03 per cent in 2011-12.

However, within the secondary sector, the percentage share of manufacturing especially registered manufacturing and construction has been rising and that of gas, electricity and water supply has remained almost constant.

The service sector (tertiary sector) has grown substantially since 1950-51, with its share in GDP going up from 29.63 per cent in 1950-51 to over 59.29 per cent in 2011-12.

Within the tertiary sector, all sectors have been growing rapidly. Trade, hotels, transport and communication is the largest sector which contributes about 22.5% share to GDP. Financial sector has been the fastest growing sector after independence and especially after nationalization of banks in 1969 and 1980.

Since the 1980′s growth process in India has been marked by a robust performance of services sector. Growth rate of this sector improved from 6.6 per cent during the decade 1981-90 to 7.6 per cent during 1991-2000. During 2001-02 and 2009-10, services sector grew by nearly 10 per cent.

Though both secondary and tertiary sectors have grown faster than the primary sector but increase in the share of tertiary sector has been higher than that in secondary sector. The average growth rate of primary sector has been 2.5% per annum while that of secondary sector and tertiary sector has remained around 5% during the planning period.

Earlier the primary sector was dominant but now tertiary sector is dominant in the economy. The secondary sector never remained dominant in the economy. This pattern of structural changes has deviated from the development pattern of the western countries.

Those countries experienced first a shift from primary to secondary sector and only in their advanced stage they experienced a significant shift in favour of tertiary sector.

This pattern of development enabled them to transfer growing labour force from primary to secondary sector. In India this has not been possible because secondary sector has not expanded fast enough to absorb growing labour force.

4.8 Difficulties in the Measurement of national Income

There are many difficulties in measuring national income of a country accurately. The difficulties involved in national income accounting are both conceptual and statistical in nature. Some of these difficulties involved in the measurement of national income are discussed below:

(i) Non-Monetary Transactions: The first problem in National Income accounting relates to the treatment of non-monetary transactions such as the services of housewives to the members of the families. For example, if a man employees a maid servant for household work, payment to her will appear as a positive item in the national income. But, if the man were to marry to the maid servant, she would performing the same job as before but without any extra payments. In this case, the national income will decrease as her services performed remains the same as before.

(ii) Problem of Double Counting: Only final goods and services should be included in the national income accounting. But, it is very difficult to distinguish between final goods and intermediate goods and services. An intermediate goods and service used for final consumption. The difference between final goods and services and intermediate goods and services depends on the use of those goods and services so there are possibilities of double counting.

(iii) The Underground Economy: The underground economy consists of illegal and unclear transactions where the goods and services are themselves illegal such as drugs, gambling, smuggling, and prostitution. Since, these incomes are not included in the national income; the national income seems to be less than the actual amount as they are not included in the accounting.

(iv) Petty Production: There are large numbers of petty producers and it is difficult to include their production in national income because they do not maintain any account.

(v) Public Services: Another problem is whether the public services like general administration, police, army services, should be included in national income or not. It is very difficult to evaluate such services.

(vi)Transfer Payments: Individual get pension, unemployment allowance and interest on public loans, but these payments creates difficulty in the measurement of national income. These earnings are a part of individual income and they are also a part of government expenditures.

(vii) Capital Gains or Loss: When the market prices of capital assets change the owners make capital gains or loss such gains or losses are not included in national income.

(viii) Price Changes: National income is the money value of goods and services. Money value depends on market price, which often changes. The problem of changing prices is one of the major problems of national income accounting. Due to price rises the value of national income for particular year appends to increase even when the production is decreasing.

(ix) Wages and Salaries paid in Kind: Additional payments made in kind may not be included in national income. But, the facilities given in kind are calculated as the supplements of wages and salaries on the income side.

(x) Illiteracy and Ignorance: The main problem is whether to include the income generated within the country or even generated abroad in national income and which method should be used in the measurement of national income.

4.9 Let us Sum up

National income is the market value of all final goods and services produced in a country over a period of time, generally one year. In general, there are three important measures of national income, viz., (i) GNP, (ii) GDP, and (iii) NNP. In measuring GNP, income earned abroad by the nationals is added and income Earned by foreigners in the country is subtracted from national income estimates; on ontrary, a reverse process is used in estimating GDP. NNP is defined as GNP–Depreciation. Depreciation equals the loss of national capital in the process of production. there are three methods of measuring national income: (i) Value-added method, factor-income method, and (iii) expenditure method. The choice of method depends on the availability of data required for estimating national income. Often two or all the three methods are combined to estimate national income. In India, an organization called CSO estimates the national income. It uses net output and factor income method for estimating national income.

4.10 Exercise

Q1: what are the methods of measuring national income?

Q2: what is value added method?

Q3: What is the facto-income method of measuring national income?

Q4: how is income from abroad adjusted in national income?

Q5: Distinguish between net-product method and factor-income method. Which of these methods is followed in India?

4.11 Answers to ‘Check Your Progress’

1. National income is defined as the market value of all final goods and services Produced during a period of time, usually one year.

2. In general, three measures of national income are used in economic and business anaylsis: (i) GNP, (ii) GDP, and (iii) NNP.

3. The difference between GNP and GDP lies in the treatment of income earned abroad by nationals and income earned by foreigner in the domestic economy. In measuring GNP, income abroad by nationals is added and income earned by foreigners in the country is deducted from the value estimated. In case of GDP, a reverse process is used.

4. NNP means GNP less depreciation, i.e., the value of national capital lost in the Process of national production.

5. There are three methods of measuring national income: (i) net product or value Added method, (ii) factor income method, and (iii) expenditure method.

6. Under value-added method, first gross value of national product is estimated. Then costs of material and services also depreciation are estimated. These costs are deducted from the gross value to arrive at national income.

7. In general, factor income method follows the principle that national income = wages + rent + interest + profit. For estimating national income, however, factor incomes are classified as (i) labour income, (ii) capital income, and (iii) mixed income.

8. The adjustment of income earned abroad depends on GNP and GDP estimation. In case of GNP, income earned abroad by the citizens of a country is added to the gross But in case of GDP, this is deducted from the gross value.

4.12 Suggested Reading

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LESSON -5

ECONOMIC REFORMS IN INDIA

Structure

5.0 Objectives

5.1 Introduction

5.2 Rationale of Economic Reforms

5.3 Key Features of Economic Reforms

5.3.1 Liberalization

5.3.2 Privatization

5.3.3 Globalization

5.4 Parameters for Assessing Economic Reforms

5.5 Appraisal and Critique of Economic Reforms

5.5.1 GDP Growth, Employment and Poverty

5.5.2 Impact of Economic Reforms on Labour

5.5.3 Impact on Productivity and Real Wage Earnings

5.6 Summary

5.7 Exercise

5.8 Glossary

5.9 Suggested Readings

5.0 Objectives

The Chapter introduces and assesses the economic reforms undertaken in India during early 1990's after four decades of development planning. After going through this lesson, you will be able to:

- know the rationale behind economic reforms introduced in 1991;
- state the key elements of the economic reform process viz. liberalisation, privatisation and globalisation;
- Identify the challenges faced during its implementation; and assess the impact of economic reforms on Indian economy.

5.1 Introduction

After attainment of independence, India adopted the regime of economic planning with a glorious vision of a resurgent India. It aimed to marching firmly on the path of progress while ensuring an equitable distribution of the nation's wealth. Policies Development Strategies in India relating to licensing focused on public sector, putting infant industry argument for imposing trade barriers, import-substitution policies, etc.

This gamut of policies led to over-protection, inefficient resource utilization, high revenue deficits, mismanagement of firms and economy, poor technological development and shortage of foreign exchange. The resultant stress and pressures compelled the government to revisit the policy framework. The outcome came to be a set of changes in economic policies, which in a broad sense came to be identified as economic reforms. The principal aim of economic reforms was to enter an era of globalization which meant a) free flow of goods and services, b) free flow of technology, c) free flow of capital, and d) free movement of human beings, especially labour from one country to another.

Economic reforms, therefore, required integrating the Indian economy with world economy and the emphasis in economic reforms shifted to export-led growth strategy from import substitution strategy.

5.2 Rationale of Economic Reforms

Indian economy was highly regulated during the first four decades of economic planning (1950-1990). The five-year plan objectives were focused on development of public sector for setting up heavy and basic industries, self-reliance, and import substitution strategies, nationalization and state-interventionist regime. While on one hand it helped in setting up some key industries like SAIL, ONGC, IOC, BHEL, etc., on the other hand it restricted the growth of private sector, private business plans and brought about bureaucracy-led corruption, sick public sector enterprises, deteriorating trade balance, economic and financial crisis in early 1990s. India had to borrow foreign exchange from IMF and comply with the conditionality imposed by it such as stabilization and structural stability programme, reduction of trade barriers, revision of fiscal and monetary policies, active role of market and integration of the Indian economy with the world economy. In a nutshell, the three basic elements of economic reforms were liberalization, privatization and globalization (also known as LPG strategy) of the Indian economy.

5.3 Key Features of Economic Reforms

The New Economic Policy (NEP) during the economic reforms process reflected neo-liberalism. The rationale of economic reforms was provided by the Industrial Policy announced by the Government in 1991. Its basic philosophy was summed up as ‘continuity with change’. The key objectives can be summarized as:

a) To set free the Indian industrial economy from the hassles of unnecessary bureaucratic controls;

b) To introduce liberalization with a view to integrate the Indian economy with the world economy;

c) To remove restrictions on foreign direct investment (FDI) and also to lessen the restrictions of Monopolies and Restrictive Trade Practices (MRTP) Act for the domestic entrepreneur;

d) To dilute the monopoly of public sector enterprises and encourage competition from new private enterprises.

5.3.1 Liberalization

A liberal policy adopted on both domestic and external fronts aimed to counter the financial crisis during early 1990's included the following measures:

a) All industrial licensing was abolished except for 18 industries relating to security and strategic concerns, social sectors, hazardous chemicals, environmental reasons and items of elitist consumption industries. (Presently, only five industries are subject to licensing)

b) To promote domestic and global competition, reservation of Small-scale industry (SSI) items is being reduced gradually since 1990s. Currently, the number of items facing reservation stands only 21, a marked decline from 836 in 1996.

c) MRTP Act was amended to account for removal of pre-entry restrictions, concentration of economic power, threshold limits of assets in respect of dominant undertakings and MRTP companies. (Subsequently, the MRTP Act has been withdrawn and the MRTP commission stands disbanded)

5.3.2 Privatization

Privatization refers to any process that reduces the involvement of the state/public sector in economic activities of a nation. Contrary to the post-independence thrust on enlargement of public sector, the economic reforms of 1991 recognized private sector as the engine of growth. Policies were framed to increase the role of private sector in the process of development. Privatization in a mixed economy like India can take several forms such as:

a) Total denationalization, implying complete transfer of state ownership of productive assets into private hands. Some prominent examples in India were of Allwyn Nissan, Mangalore Chemical and Fertilizers, Maharashtra Scooters – transferred to private hands.

b) Joint venture, implying partial induction of private ownership from 25 to 50 per cent or even more in a public sector enterprise, depending upon the nature of the enterprise and state policy in this regard. The basic aim is to improve efficiency, productivity and profitability of the firms. Three kinds of proposals are put forward in it:

- 26 per cent ownership by the private sector (banks, mutual funds, corporations, individuals). Workers also to be included and equity to the extent of 5 per cent to be transferred to them.
- 51 per cent equity to be retained by the Government and 49 per cent to be sold to private sector.
- 74 per cent of the equity transferred to the private sector and Government retains 26 per cent.

c) Worker's co-operative is another form of privatization where a loss-making public sector firm is transferred to the workers. A classic example of the Indian case is the Indian Coffee Houses run by a chain of worker cooperative societies, retained from the British rule post-independence. However, it did not assume a significant role in economic reforms due to requirement of investments for expansion of businesses.

d) Token Privatization, also known as deficit privatization or disinvestment, implying sale of 5-10 per cent shares of a profit-making public sector enterprise in the market with the objective of obtaining revenue to reduce budget deficits. During the period 1991-92 to 2011-12, the government could raise a sum of Rs. 60,000 crore by way of disinvestment. On an average, disinvestment receipts have managed to cover 7 per cent of the revenue deficit and 4 per cent of the fiscal deficit over the period 1992-2012.

Government announced a new policy on November 5, 2009 which has two components: One dealing with listed profit-making units and another extending to all other government-owned companies. While the former will have to off load minimum 10 per cent equity stake, unlisted ones (meeting 3 criteria – a positive net worth, no accumulated reserves and a net profit for three consecutive years) will have to opt for listing on the stock exchanges by divesting similar amounts.

5.3.3 Globalization

Globalization is the process of integrating the various economies of the world without creating any barriers in the flow of goods and services, technology, capital and labour/human capital. It involves four components:

a) Reduction of trade barriers in the form of custom duties/quotas/quantitative restrictions so as to permit free flow of goods and services in different economies.

b) Creation of an environment in which free flow of capital (or investment) can take place between nation states.

c) Creation of an enabling environment for the free flow of technology; and

d) From the viewpoint of developing countries, creation of an environment in which free flow of labour or human resources can take place among different countries of the world.

Essentially, globalization is an extension of the process of liberalization in the international domain. It therefore signifies internationalization plus liberalization.

In India, the process of globalization began with the adoption of LPG model during economic reforms since 1990s. Some of the key features in this context are:

a) Its key impact was seen in India's service sector particularly in fast-paced growth of industries like information technology (IT), information technology enabled services (ITES), outsourcing, telecommunications, tourism, real estate, transport, banking, insurance, entertainment, etc.

b) Inducement to foreign investment flows (FDIs and FIIs) has brought about efficiency, competition, profitability and global standards in productivity and quality of economic goods. Mergers, joint-ventures, PPPs, and contracting to foreign players have accelerated the development process in the Indian economy.

c) The two decades of economic-reforms have seen an increase in the rate of exports, migration (domestic and international), etc.

In a nutshell, the key transformation in various policy-making during economic reforms period (1991- 2012) can be summarized in Table 5.1.

Table 5.1: Model of Economic Management in India.

	Pre-Reform Strategies	**Economic Reform Strategies**
Liberalization	License dominated regime	Delicensing, deregulations, debureaucratisation
	Politically administered prices	Market determined prices at large
	State-led economic growth	Market-determined economic growth
	Not much concern for deficits	Contain all kinds of deficits
	Development by inflationary process	Deflationary monetary and fiscal policies
	Restrictions on currency movement	Liberalization of restrictions
	State-controlled interest rates	Deregulation of interest rates
	State controlled credit	Credit policy reforms
	Under developed capital market	Reforms in capital market
	Huge public sector budgetary resources (PSBR) liability on government	Minimize PSBR
	High tax rates	Tax reforms
Privatization	PSUs as engines of growth	Private investment as engine of growth
	Frequent state interventions	Selective and effective state interventions
	Dominance of PSUs	Withdrawal from the areas of private interest
	Philosophy of natural monopoly	Minimise gap between public and private sectors
Globalization	Closed economy	Open economy
	Self-reliance	Integration with world markets
	Import-substitution strategies	Export oriented strategies
	Restrictions on FDI and MNCs	Inducement to FDI and MNCs

Source: The Indian Economy (2012), I.C.Dhingra.

5.4 Parameters for Assessing Economic Reforms

The goals of economic development have been defined in the First and the Second five-year plan. They also serve as parameters for judging the impact of economic reforms. The major goals are:

i) A higher rate of growth of GDP.

ii) Enlargement of the employment potential leading to full employment.

iii) Reduction of the proportion of population below poverty line.

iv) Promotion of equity or distributive justice to enhance the conditions of the poor and less well off sections of the society.

v) Reduction of regional disparities between the rich and poor states of India.

vi) Improvement in human development in terms of health and education of the population.

5.5 Appraisal and Critique of Economic Reforms

The appraisal and critique of economic reforms needs to look at the actual growth rates achieved, its impact on employment and poverty reduction, labour, agriculture, balance of trade as well as balance of payments, industrial growth, FDI and FII, economic and social infrastructure as well reduction in regional disparity between states.

5.5.1 GDP Growth, Employment and Poverty

Advocates of economic reforms point out that the reform process has the potential of accelerating economic growth. After the initial turbulence of the economic environment in early 1990s, growth rate has picked up and GDP growth has averaged around 7.5 in the recent years. The growth process however has not been uniform and has been subject to year-to-year fluctuations, at times in response to domestic adverse factors, and other times in response to adverse external environment. For example, further growth remained uniformly stable for the next three years (2005-08), until the outbreak of global recession which hit the economies of almost all the countries across the globe, with India being no exception. A noteworthy point is, however, the fact that the recessionary pressures declined India's growth rate moderately as compared to other countries and growth picked up momentum the very next year, indicating the strength of Indian economy. It implies that economic reforms have finally shown its positive impact on growth process.

Table 5.1 : GDP Growth-rate at 2004-05 prices

Year (Pre-Reform)	GDP (Rs. Crore)	Growth Rate
1980-81	7,98,504	7.2
1990-91	13,31,040	5.1
Post-Reform period		
2000-01	18,64,301	
2001-02	19,72,606	5.8
2002-03	20,48,286	3.8
2003-04	22,22,758	8.5
2004-05	29,67,599	33.5
2005-06	32,49,130	9.5
2006-07	35,64,627	9.7

2007-08	38,93,457	9.2
2008-09	41,54,973	6.7
2009-10	44,79,973	8.4
2010-11	48,33,178	7.9
2011-12	51,71,538	7.0

Annual Average GDP Growth Rate	
1980-81 to 1990-91	5.6
1990-91 to 2000-01	5.5
2000-01 to 2009-10	10.4
2010-11	7.9
2011-12	7.0

Source: Economic Survey 2011-12.

Economic reforms have brought about a decline in poverty ratios but not uniformly all over the years. The Table shows that although there was a marked decline in both rural and urban poverty rates in 1983-84, yet the decline in the post-reform period has not been impressive and thus can't be attributed to economic reforms alone. As evident from the table, during the period of 1993-2000, poverty has declined by nearly 10 per cent in both rural and urban areas posing a satisfactory picture. However, thereafter, there has been an increase in the per cent age of population living below poverty line in 2004-05 indicating ineffective poverty reduction strategies. Few economists have identified stagnation in rural growth as a major cause of it.

To sum up, the whole scenario shows an unimpressive decline in poverty in India in the post-reform period.

Table1.2 : Percentage of Population below Poverty-line

Year	Per cent of Population below Poverty Line (Headcount Index)		
	Rural	Urban	India
1973-74	56.44	49.01	51.50
1987-88	39.09	40.79	38.86
1993-94	37.27	32.36	35.97
2004-05	42.0	25.50	29.80
2009-10	33.80	20.9	29.80

Source: Planning Commission website.

Should a country concentrate on accelerating economic growth rate or should its efforts be based on inclusive but moderate growth? Are poverty and unemployment, the two biggest challenges to India, inter-related to the growth story too? The answer is a simple interactive growth-employment relationship. If acceleration in growth is unaccompanied with acceleration in employment opportunities, then it leads to unemployment or under-employment, a major factor behind poverty. To put it simply, in general: Acceleration in Growth and Qualitative Employment leads to a decline in poverty and Un/under Employment.

However this equality is hollow until one examines the country's population growth rate too. The following table shows that although India's population growth rate declined from 2.12 to 1.93 in 1994-2000, yet even the labour force as well as employment declined in the same period, marking a serious question on the impact of economic reforms. This startling development led to a decline in organised sector employment also from 1.20 in the pre reform period to just 0.53 in the post economic reforms period, clearly confirming decline in the quality of employment too. The latest data on some key parameters however put forward a different story as summarised in the table below.

Table 1.3 : Growth of Population, Labour-force and Employment

	Growth Rate (per cent)	1999/00-2004/05	2004/05-2009/10
(i)	Labour Force	2.47	1.54
(ii)	Employment	2.39	1.71
(iii)	Formal employment	1.73	4.02
(iv)	Informal employment	0.39	11.59
(v)	In unorganised sector	2.54	0.95

Source: DGE & T

The key aspects of this trend were:-

1) While the growth rate of population and labour force declined during the post-reform period 1994-2000, the growth of employment also declined during the same period and with much wider intensity from 2.39 per cent in 1999-2005 to 1.71 per cent in 2004-2010. This is a serious setback in the era of globalisation because consistency if not acceleration is necessary in the growth of employment in order to absorb the increasing labour force. While such a trend was rationalised on the grounds of the obvious impacts of stabilisation programme, however it is important to check this picture before it gets too late.

2) What the data in this table tells us is that improvement in employment conditions was very modest during 1999/00-2004-05 and very substantial during 2004/05-2009/10. In the first period, employment growth in the organised sector was much slower than the overall growth of employment or labour force.

Thus incremental labour force was being largely absorbed by the unorganised sector. In the second period, in contrast, there was very substantial movement of workers from the unorganised to the organised sector so that the number of workers in employment in the unorganised sector grew at a substantially slower rate than did the labour force.

3) Formal Employment in the organised sector has increased from 1.73 per cent to 4.02 per cent during the same period, posing a healthy trend. It is so because an increase in employment in organised sector is necessary to ensure quality of employment. Moreover, the private sector has done a better job in creating employment opportunities than the public sector.

4) Estimates of growth of unemployment have revealed a rise in it during the period from 4.5 per cent during 1983-1993/94 to 5.05 per cent to 1993/94 - 2004/05. When one observes this fact, it seems as if the pool of employed labour force has transformed into pool of unemployed labour force. Labour force growth is not only affected by population growth rate, but also by those who are still seeking work, on women who may rejoin the labour force after a 'break' in their careers and teenagers who do part-time work or summer jobs and quit later.

Table 1.4 : Relationship between Sector and Type of Employment (UPSS).

(All workers in millions)

Sector/Worker	Informal/ Unorganised Worker	Formal/ Organised Worker	Total
1999-2000			
Informal/Unorganised sector	341.3 (99.6)	1.4 (0.4)	342.6 (100.0)
Formal/Organised sector	20.5 (37.8)	33.7 (62.2)	54.1 (100.0)
Total	361.7 (91.2)	35.0 (8.8)	396.8 (100.0)
2004-05			
Informal/Unorganised sector	393.5 (99.6)	1.4 (0.4)	394.9 (100.0)
Formal/Organised sector	29.1 (46.6)	33.4 (53.4)	62.6 (100.0)
Total	422.6 (92.4)	34.9 (7.6)	457.5 (100.0)

Source: NCEUS (2007).

A logical question that comes to one's mind is: Why poverty did not decline during the post-economic reforms period despite a stable and increasing growth since 1990s. What does the increased employment in Informal sector of India suggest?

Perhaps it's a prominent indicator of deterioration in the quality of employment opportunities which have grown over the years. As per the latest data available for 2004-05, the employment in organised sector constituted only 6 per cent of the total employment. The growth in organised sector employment has taken place at a slow rate and this has led to informalisation of the vast labour force of India.

This is evident if we see the data in the above table.

These estimates explain the wide disparity in the employment of workers in the formal and informal sectors of the economy, which is a serious matter concerning the quality of employment. While the trends in informal sector employment have remained more or less the same during both the periods, however the formal sector has been increasingly employing informal workers from 20.5 millions in 1999-2000 to 29.1 millions in 2004-05. Thus there has been informalisation of employment not only in the informal sectors of Indian economy but also in the formal sectors as well.

Female employment constitutes about 96 per cent in the informal sector itself as against 91 per cent for males. In urban areas, the per centage of organised sector employees is around 65-70 per cent.

5.5.2 Impact of Economic Reforms on Labour

In a poor country like India, being employed itself does not ensure a decent standard of living. So in the efforts to raise the level of employment vis-à-vis the growth of labour force, the quality of employment very often gets compromised. In recent years, some serious questions have been raised regarding the nature and quality of employment in India. The quality of employment can be judged by evaluating a variety of indicators such as :- productivity of employment, trends in self-employment and casual workers, earnings/wage-rates of self-employed and casual workers, proportion of workers in organised and unorganised workers, etc.

Self-employed registered a large increase in their numbers and casual labour a decline during the period 1999-00 to 2004-05. During this period a total of 83.7 per cent of additional workers numbering 49.75 million were added to the ranks of self-employed. From this, 27.10 million were self-employed in agriculture and 25.06 million in rural areas. The latest data also proves this fact.

Table 1.5 : Percentage distribution of workforce (UPSS) by Employment Status, 1993-94 to 2004-05.

Employment Status	1993-94	1999-2000	2004-05
RURAL			
1. Self employed	57.96	55.76	60.2
2. Wage workers	42.04	44.24	39.9
(i) Regular	6.45	6.83	7.1
(ii) Casual	35.59	37.41	32.8
URBAN			
1. Self-employed	42.29	42.23	45.4
2. Wage workers	57.71	57.77	54.5
(i) Regular	39.40	40.03	39.5
(ii) Casual	18.31	17.74	15.0

Source: Report of MoL & E, NSSO surveys.

5.5.3 Impact on Productivity and Real Wage Earnings

Productivity of employment In 1999-2000, the per \centage of people below poverty line was high at 26.1 per cent whereas the unemployment rate was 2.23 per cent. This shows that of the total employed persons, about 23.87 per cent fall under the category of working poor. The low productivity of employment was mainly a result of low educational and skill levels of the workers which could not be matched with the requisite jobs which emphasises the need to bring about professionalisation in education sector. A planned link between education and employment has to be created.

Table 1.6 : Average daily wage (In Rs.) of Regular and Casual workers (15-59 years) 2004-05

Male	Female	Index of Gender bias in Wage Payments	
Regular			
Rural	144.93	85.53	0.59
Urban	203.28	153.19	0.75
Casual			
Rural	55.03	34.94	0.63
Urban	75.1	43.88	0.58

Source: DGE&T

In the above table we can observe that on an average, casual workers have received a lower wage rate than the regular ones in both urban and rural areas. Amongst them female workers working as casual labour have been at the receiving end, as their wage-rates were less than 1/3rd of the female workers in urban areas. Another noteworthy point was the gender bias in the wage rates of females which was higher in urban areas as compared to rural areas in regular employment.

5.6 Summary

This chapter has mainly dealt with the rationale, features and impact of economic reforms initiated in 1991. The rationale behind the reforms was primarily to introduce liberalisation, restrict bureaucratic controls, and remove restrictions on direct foreign investment and to encourage privatisation with a view of decompressing the load on public sector enterprises. The key feature of economic reforms was the LPG model put forth by the Government with a view of integrating the Indian economy with the global economy.

The impact of economic reforms has been positive in terms of GDP growth and also the increase in foreign investments has been satisfactory. However the broader problems of our nation like poverty and unemployment have not got the stimulus from these reforms. The agricultural growth has also been neglected as seen by the near stagnation of capital investments in it by public sector. Economic reforms have also not been successful in accelerating industrial growth.

5.7 Exercise

Q1) Enumerate the parameters for the assessment of economic reforms?

Q2) Explain the trends in GDP growth during the pre-reforms and post-reforms period in India?

Q3 Identify the key reform strategies that have transformed Indian Economy post-1991.

Q4 What was the rationale behind introduction of economic reforms in the early 1990s? Do you find it justifiable?

Q5 Outline the four major objectives of economic reforms. What are the key features of LPG model in the Indian context?

5.8 Glossary

- **Privatization** refers to any process that reduces the involvement of the state/public sector in economic activities of a nation.
- **Globalization** is the process of integrating the various economies of the world without creating any barriers in the flow of goods and services, technology, capital and labour/human capital.
- **Economic liberalization** is a very broad term that usually refers to fewer government regulations and restrictions in the economy in exchange for greater participation of private entities; the doctrine is associated with classical liberalism. Thus, liberalisation in short refers to "the removal of controls", to encourage economic development

5.9 Suggested Readings

- Dhingra, I.C. (2012): The Indian Economy: Environment and Policy (27th edition.2012).
- Panagriya, Arvind (2008): India: The Emerging Giant, Oxford University Press, New York.
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LESSON – 6
GLOBALIZATION

STRUCTURE

6.0 Objectives

6.1 Introduction

6.2 Definition of Globalization

6.3 Dimensions of Globalization

6.3.1 Impact of Globalization on National Economies

6.4 World Trade Organisation

6.4.1 Functions of WTO

6.4.2 Impact on Economies

6.5 Foreign Direct Investment

6.5.1 Significance of FDI

6.6 Globalization

6.6.1 LPG Model of Development & LPG reforms

6.7 The period before liberalization in India

6.8 The context of Five Year Plans in Liberalization Privatization and Globalization

6.8.1 Eighth five-year plan during LPG policy

6.8.2 Plan performance

6.9 Post liberalization in India

6.10 NITI Aayog in India:

6.10.1 Aims and Objectives of NITI Aayog:

6.10.2 Functions of NITI AAYOG

6.11 Summary

6.12 Exercise

6. 13 Suggested Reading

6.0 Objective

- know about the meaning of globalization
- Understanding about the World Trade Organisation and its fuctions
- know about the NITI Aayog

6.1 Introduction

Globalization, since World War II, is largely the result of planning by statesmen to breakdown borders hampering trade to increase prosperity and interdependence thereby decreasing the chance of future war. Their work led to the Brettonwoods Conference, an agreement by the world's leading statesmen to lay down the framework for international commerce and finance, and the founding of several international institutions intended to oversee the process of globalization. These institutions include the International Bank for Reconstruction and Development (the World Bank), and the International Monetary Fund.

Globalisation has been facilitated by advances in technology which has reduced the costs of trade, and trade negotiation rounds, originally under the auspices of the General Agreement on Tariffs and Trade (GATT), which led to a series of agreements to remove restrictions on free trade. Free trade and free market are the key factors of globalisation. Free trade was proceeded by British and French from the seventeenth to eighteenth centuries. The British did not adopt free trade until the 1840s. But they began imposing free trade on their colonies including India. The other European Countries were free trading nations throughout the nineteenth century. The Americans were among the first nine to start protecting their industries against foreign competition especially from British products.

India was having trade relations with all parts of the world as far back as historical records can ascertain. But at each point of time there were different kinds of political regimes and corresponding patterns of Government regulations controlling these relations. What makes the recent changes remarkable is that they involved a revision of the fairly restrictive trade regulations that independent India had developed over a period of forty-five years. Moreover, this revision was not a random process but was to follow a pattern and this pattern was part of an entire package of policies that the International Monetary Fund (IMF) and the World Bank had been recommending to developing countries as a key to faster economic growth

6.2 Definition of Globalization

The International Monetary Fund (IMF) describes it as —the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.

The United Nations ESCWA has written that globalization —is a widely used term that can be defined in a number of ways. When used in economic terms it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour although considerable barriers remain to the flow of labour. Globalization as the —inexorable integration of markets, nation-states and technologies to a degree never before in a way that is enabling individuals, corporations and nation- states to reach around farther, faster, deeper and cheaper than ever before and in a way that is enabling the world to reach into individuals, corporations and nation- states farther, faster, deeper and cheaper than ever before.

This process of globalization is also producing a powerful backlash from those brutalized or left behind by this new system. Globalization is the integration of national economies leading to the notion of a borderless global or planetary, an interwoven net of factories, fields and forests, governments, labouring populations, cities and transports spread over the surface of the earth .

According to bagbathi,''Globalization' as integration of national economies into the international economy through trade, direct foreign investment (by corporations and multinationals), short-term capital flows, international flows of workers and humanity generally, and flows of technology.

6.3 Dimensions of Globalization

Theoretically the concept of globalization may be viewed as the expansion of the world system, accompaniment of modernity, creation of a single world market and a resultant of modernity.15 Globalization is a phenomenon that has many dimensions in economic, cultural, environmental and political. Almost every aspect pertaining to the issue of globalization is a subject matter of vital academic debate. The term globalization is widely and generally applicable in the economic and commercial perspective. Nevertheless its impact-range encompasses cultural and philosophical dimensions as much as fundamental principles pertaining to the culture and philosophy of a particular nation or society are likely to interact with the changed situations arising in the state of globalization.

6.3.1 Impact of Globalization on National Economies

While governments had no choice but to float their currencies, doing so was just a short-term fix rather than a long-term solution. In the new economy if countries did not join in and deregulate their currencies (and economies) they became sitting ducks for global money speculators, foremost among which are multinational banks. The floating of national currencies was an inevitable result of the US severance from regulated currency. It was an offer to weaker economies that could not be refused - either join the club of globalised currency or be clubbed by globalised currency. The floating of currencies partly addressed the threat from global money speculators, but it did not fix the fault in the global monetary system, which continues to hamstring national economies through debt.

6.4 World Trade Organisation

The Uruguay Round (1986 to 1994) led to a treaty to create the WTO to mediate trade disputes and set up a uniform platform of trading. Other bilateral and multilateral trade agreements, including sections of Europe's Maastricht Treaty and the North American Free Trade Agreement (NAFTA) have also been signed in pursuit of the goal of reducing tariffs and barriers to trade. The WTO did not come into existence as a mere extension of GATT. There were several aspects that separated the WTO from GATT, some of which are as follows. First, unlike GATT that was concerned only with trade in goods, the WTO covers all three aspects of Global trade such as trade in goods, trade in services covered under General Agreement on Trade in Services(GATS) and trade in products of innovations, that is intellectual properties, covered under the Agreement on

Trade-Related Intellectual Property Rights (TRIPs). In other Words WTO=GATT + TRIPs. 16 3.

6.4.1 Objectives of WTO

1. To improve the standard of living of people in the member Countries.
2. To ensure full employment and broad Increase in effective demand.
3. To enlarge production and trade of goods.
4. To enlarge production and trade of services.
5. To ensure optimum utilization of world resources.
6. To accept the concept of sustainable development.
7. To protect environment.

6.4.2 Functions of WTO

1. To provide facilities for implementation, administration and operation of multi-lateral and bilateral agreements of the world trade.

2. To provide a platform to member Countries to decide further strategies related to trade tariff.

3.To administer the rules and processes related to dispute settlement.

4. To implement rules and provisions related to trade policy review mechanism.

5. To assist International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) for establishing coherence in universal economic policy determination.

6. To ensure optimum use of World's resources.

6.4.2 Impact on Economies

The wave of globalisation has been driven by policies that have opened economies domestically and internationally. In the years since the Second World War, and especially during the past two decades, many governments have adopted free-market economic systems, vastly increasing their own productive potential and creating myriad new opportunities for international trade and investment. Governments also have negotiated dramatic reductions in barriers to commerce and have established international agreements to promote trade in goods, services, and investment. Taking advantage of new opportunities in foreign markets, corporations have built foreign factories and established production and marketing arrangements with foreign partners. A defining feature of globalisation, therefore, is an international industrial and financial business structure

6.5 Foreign Direct Investment

In an increasingly interdependent, open and competitive world, no country can succeed in isolation or without keeping abreast rapidly changing pattern of financial flows across countries. The source of capital once primarily domestic, are now worldwide pools that begin in a number of currencies and cross borders. In such a global economy characterized by competitive environment, the role of foreign capital in the economic development of a country cannot be ignored. Foreign capital can come into a country in various forms such as a) Foreign Direct Investment b) Foreign Collaboration c) Port folio Investment d) Loans from International Institutions e) Inter-Governmental Loans f) External Commercial Borrowings Of all these FDI has been the most prominent source in creating assets in an economy.

6.5.1 Significance of FDI

Developing countries, emerging economies and countries in transition increasingly see FDI as a source of economic development, modernization and employment generation and have liberalized their FDI policies to attract investment. FDI triggers technology spill-overs, assist human capital formation, contributes to international trade integration, helps to create a more competitive business environment and enhances enterprise development. All these contribute to higher economic growth. However, FDI is not an unmixed blessing. While it can add to country‘s capital resources and help in achieving rapid development, it can also distort the economic properties and cause misallocation of resources, corrupt administrative machinery and promote inappropriate technology.

Contradicting Views Globalisation is deeply controversial. However, proponents of globalisation argue that it allows poor countries and their citizens to develop economically and raise their standard of living, while opponents of globalisation claim that the creation of an unfettered international free market has benefited multinational corporations in the western world at the expense of local enterprises, local cultures, and common people. Resistance to globalisation has therefore taken shape both at a popular and at a governmental level as people and governments try to manage the flow of capital, labour, goods, and ideas that constitute the current wave of globalisation. Globalisation cannot be held responsible for all threats to diversity but the scale and rapidity of globalisation process today are exhibiting an added dimension of danger, one that need timely and effective remedy

6.6 Globalization

The term is sometimes used to refer specifically to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology. However, globalization is usually recognized as being driven by a combination of economic, technological, sociocultural, political, and biological factors.

6.6.1 LPG Model of Development & LPG reforms

(a) This has a very narrow focus since it mostly concentrates on the corporate sector which accounts for only 10 percent of GDP.

(b) The model bypasses agriculture and agro-based industries which are a significant source of generation of employment for the masses. It did not delineate a concrete policy to develop infrastructure. Financial and technological support, particularly the infrastructural needs of agro-exports.

(c) By permitting free entry of the multinational corporations in the consumer goods sector. LPG model hit the interests of the small and medium sector engaged in the production of consumer goods. There is a danger of labor displacement in the small industry if the unbridled entry of MNCs is continued.

(d) By facilitating imports, the Government has opened the import window too wide. Consequently, the benefits of rising exports are more than offset by the much higher rise in imports leading to a more significant trade gap.

(e) Finally, the model emphasizes a capital-intensive pattern of development, and there are severe apprehensions about its employment-potential. It is being made out that it may cause unemployment in the short run but will take care

"Liberalization, Privatization and Globalization" (LPG Model & LPG Policy) approach followed by Government of India

For an understanding of liberalization, privatization and globalization or LPG Model in the Indian context, it is essential to detail out the eighth five-year plan, since it was the inception of a host of LPG policy that was instrumental in allowing India to unshackled its economy and engage in global trade and commerce.

6.7 The period before liberalization in India

The annual growth rate of the economy of India before 1980 was low. It stagnated around 3.5% from the 1950s to 1980s, while per capita income averaged 1.3%. Only four or five licenses would be given for steel, electrical power, and communications. License owners built up substantial, powerful empires. A vast public sector emerged. State-owned enterprises made large losses. Income Tax Department and Customs Department manned by IAS officers became efficient in checking tax evasion. Infrastructure investment was weak because of the public sector monopoly. Licence Raj established the "irresponsible, self-perpetuating bureaucracy that still exists throughout much of the country" and corruption flourished under this system.

6.8 The context of Five Year Plans in Liberalization Privatization and Globalization

The Eighth Five Year Plan (1992-1997) was formulated after a period of political instability which gripped the country for two years after the completion of the Seventh Five Year Plan. In 1991, the country faced a major foreign exchange crisis which made the economic position of the country very vulnerable. As a result of this instability in the country, there were two Annual Plans for 1992 and 1993. The eighth five-year plan measures such as privatization and liberalization which were to have a far-reaching impact later were introduced during the Eighth Five Year Plan. India also became a member of the World Trade Organisation (WTO) during this Plan period.

6.8.1 Eighth five-year plan during LPG policy

The main aim of the Eighth Five Year Plan was –

- To modernize the industrial sector through modern technology.

- Opening up of the Indian economy to counter the foreign debt burden which was a significant threat for the country.

- Taking significant initiatives to increase the rate of employment and reduce poverty.

During this plan focus was on implementing plans and policies which would help in attaining objectives like the modernization of the industrial sector, increase the rate of employment in the country, reduce poverty and improve self-reliance on domestic resources. Also, the Eighth Five Year Plan also focused on human resource development based on the reasoning that healthy and educated people could contribute more effectively to economic growth. Most important, the Eighth Five Year Plan marked the beginning of privatization and liberalization of the economy in the country.

6.8.2 Plan performance

- The target growth for the Eighth Five Year Plan was taken as 5.6 percent but by the end of the Plan, India achieved an actual growth rate of 6.78 percent, higher than that of the target.

- Increase in the rate of employment.

- Reduction in the poverty rate.

- The Gross Domestic Product (GDP) rate increased from 5.7 percent to 6.5 percent.

- The inflation rate rose from 6.7 percent to 8.7 percent.

- The rate of growth in the agriculture sector increased from 3 percent to 4.8 percent

6.9 Post liberalization in India

The economic reforms lead to a certain amount of stability in the economy and high growth rate. In the ninth five-year plan it was envisaged to have balanced development. For this, the focus was on speedy industrialization, human development, full-scale employment, poverty reduction, and self-reliance on domestic resources.

The main objectives directly related to liberalization and privatization as a continuation of the previous plan period were

- to generate adequate employment opportunities and promote poverty reduction

- to stabilize the prices to accelerate the growth rate of the economy

- to create a liberal market for an increase in private investments

Other objectives served the purpose of human development. They were

- To ensure food and nutritional security.

- to provide for the necessary infrastructural facilities like education for all, safe drinking water, primary health care, transport, energy

- to check the growing population increase

- to encourage social issues like women empowerment, conservation of certain benefits for the Special Groups of the society

6.10 NITI Aayog in India:

NITI Aayog or National Institution for Transforming India Aayog is basically a policy think tank of Government of India and State Governments that replaces 65-year old Planning Commission. Union Government of India had announced formation of NITI Aayog on 1st January, 2015. The NITI Aayog will have a governing council comprising all State Chief Ministers and Lt. Governors of Union Territories and will work towards fostering a 'Co-operative federalism' for providing a "national agenda" to the Centre and States.

The body is comprised of a CEO and a Vice Chairperson, to be appointed by the Prime Minister, in addition to some full-time members and two part-time members, while four Union Ministers would serve as ex-officio members. Besides, there would be specific regional councils, while experts and specialists from various fields would be called as special invitees nominated by the Prime Ministers.

NITI Aayog will serve as a "think tank" of the government as a "directional and policy dynamo" and would provide both to the governments at the centre and in the states with strategic and technical advice on key policy matters including economic issues of national and international importance. Thus NITI Aayog will never plan, rather it will formulate policy. By following these policies, various Ministries of the Central Government will prepare developmental projects considering the need of long term development. NITI is in favour of cooperative federal structure where both the Centre and States jointly prepare developmental policies .But NITI, at the same time, wants to promote healthy competition among the developing states.

Thus, the propulsive concept behind the new body would be "co-operative federalism" entailing that the states to have their say in framing plans and policies for development. The NITI Aayog has been envisaged as a kind of inclusive think-tank embracing the Centre and States to give strategic and technical advice on economic matters of national and global importance. NITI Aayog will have regional councils to focus on developmental activities on specific areas and is patterned on the National Reforms Development Commission of China. While the Planning Commission had the power to allocate funds to states for attaining regional development, the NITI Aayog will not have such powers. Rather, the task of allocating funds to states now being vested with the Finance Ministry's Department of Expenditure.

Its primary job would be to undertake long term policy and design frameworks and take necessary initiatives for attaining faster development and finally to monitor these activities sincerely.

Thus, NITI Aayog will actively monitor and evaluate implementation of the Government programmes and initiatives. The Planning Ministry of present NDA Government is of the view that "with central plan expenditure of the order of Rs 5.75 lakh crore was being channelized per year for development, it was absolutely necessary that there is concurrent, comprehensive, credible and reliable evaluation”. This step mainly focuses on strategies to spread awareness about and use of evaluation as a tool for enhancing result from policies and programmes of good governance. So it was time to consider developing a National Evaluation Policy that would provide direction to Monitoring and Evaluation (M & E) activities in the country, laying stress upon quality standards and sound ethical procedures and provide for appropriate institutional mechanisms.

NITI Aayog would therefore mean:

(a) A group of people with authority entrusted by the government to formulate/regulate policies concerning transforming India.

(b) It is a commission to assist government in both social and economic issues.

(c) It is an institute of think tank with experts in it.

(d) It is an body to actively monitor and evaluate implementation of government programmes and initiatives.

2 Formation of NITI Aayog:

The NITI Aayog comprises the following members and bodies:

1. Prime Minister of India as the chairperson.

2. Governing Council comprising the Chief Ministers of all States and Union Territories with legislatures and Lieutenant Governors of other Union Territories.

3. Regional Councils will be formed to address specific issues and contingencies impacting more than one state or a region. The aim of the Regional Councils is to amicably settle disputes between two or more states facing a common set of problems that usually delay the progress of developmental projects.

These councils will be formed for a specified tenure. The Regional Councils will be convened by the Prime Minister and will comprise of the Chief Ministers of States and Lt. Governors of Union Territories in the region for addressing specific issues. These Regional Councils will be chaired by the chairperson of the NITI Aayog or his nominee.

4. Experts, specialists and practitioners with relevant domain knowledge will be called as special invitees, to be nominated by the Prime Minister.

5. Full-time organizational framework (in addition to Prime Minister as the Chairperson) includes the following positions:

(i) Vice-Chairperson.

(ii) Members: Two (2) Full-time.

(iii) Part-time Members: Maximum of two from leading universities, research organizations and other relevant institutions in an ex-officio capacity. Part-time members will be on a rotational basis.

(iv) Ex-officio Members: Maximum of four members of the Union Council of Ministers to be nominated by the Prime Minister.

(v) Chief Executive Officer (CEO). To be appointed by the Prime Minister for a fixed tenure, in the rank of Secretary to the Government of India.

(vi) Special Invitees.

(vii) Secretariat as deemed necessary for its functioning.

6.10.1 Aims and Objectives of NITI Aayog:

The following are some of the important aims and objectives of NITI Aayog:

1. NITI Aayog sets its aims to provide a critical directional and strategic input into the development process of the country.

2. NITI Aayog aims to serve as a “think tank” of the government both at central and state levels with relevant strategic and technical advice on key policy matters including economic issues of national and international importance.

3. NITI Aayog now seeks to replace the centre-to-state one way flow of policy framed by the Planning Commission by an amicable settled policy framed by a genuine and continuing partnership of states.

4. The NITI Aayog will also seek to put an end to slow and tardy implementation of policy by fostering better Inter-Ministry co-ordination and better centre-state co-ordination. It will help evolve a shared vision of national development priorities, and foster co-operative federalism, in order to focus on the view that strong states make a strong nation.

5. The NITI Aayog has set it objectives to develop mechanisms to formulate credible plans to the village level and aggregate these progressively at higher levels of government. This Aayog will ensure special attention to the sections of society that may be at risk of not benefitting adequately from economic progress.

6. The NITI Aayog, will create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and partners. The Aayog will offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.

7. The NITI Aayog will monitor and evaluate the implementation of programmes, and focus on technology upgradation and capacity building.

Undertaking the above activities, the NITI Aayog will aim to accomplish the following objectives and opportunities:

(i) An effective administration paradigm in which the Government is an “enabler” rather than a “provider of first and last resort”.

(ii) Attaining progress from “food security” to focus on a mix of agricultural production as well as attain actual returns that farmers get from their produce.

(iii) To ensure that India is an active player in the debates and deliberations on the global commons.

(iv) To ensure that the economically vibrant middle-class remains actively engaged, and its potential is fully utilized.

(v) Leverage India's pool of entrepreneurial, scientific and intellectual human capital.

(vi) Incorporate the geo-economic and geo-political strength of the non-resident Indian Community.

(vii) Use urbanization as an opportunity to create a wholesome and secure habitat through the use of modern technology.

(viii) Use technology to reduce opacity and potential for misadventures in governance.

Moreover, the NITI Aayog aims to enable India to face complex challenges in a better way through the following measures:

(i) Leveraging of India's demographic dividend and realization of the potential of youth, men and women through imparting education, skill development, elimination of gender bias and also by providing employment.

(ii) Elimination of poverty, and the enhance the chance for every Indian to live a life of dignity and self- respect.

(iii) Redressal of inequalities based on gender bias, caste and economic disparities.

(iv) To integrate villages institutionally into the development process of the country.

(v) To provide policy support to more than 50 million small business which are considered as a major source of employment generation.

(vi) To safeguard our environmental and ecological assets.

Thus the NITI Aayog will try to frame a proper development policy for the country and will also seek to put an end to slow and tardy implementation of policy, by fostering better inter-ministry coordination and improve Centre-State coordination. It will also evolve a shared vision of national development priorities, and foster co-operative federalism, recognizing the motto that strong states make a strong nations.

6.10.2 Function of NITI AAYOG (NATIONAL INSTITUTION FOR TRANSFORMING INDIA)

1. NITI Aayog (National Institution for Transforming India):

(i) To evolve a shared vision of national development priorities sectors and strategies with the active involvement of States in the light of national objectives

To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation

To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government

To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy

To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress

To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections

To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.

To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.

To offer a platform for resolution of inter-sectoral and inter- departmental issues in order to accelerate the implementation of the development agenda.

To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders

To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery

To focus on technology upgradation and capacity building for implementation of programmes and initiatives

To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above

(ii) National Institute of Labour Economics Research and Development (NILERD)

2. The NITI Aayog is the successor in interest to the Planning Commission

6.11 Summary

In this chapter we study about the Globalization in detail. The fruits of liberalization reached their peak in 2007 when India recorded its highest GDP growth rate of 9%. With this, India became the second fastest growing major economy in the world, next only to China. There has been a significant debate, however, around liberalization as an inclusive economic growth strategy. Since 1992, income inequality has deepened in India. Whereas consumption is among the poorest staying stable while the wealthiest generate consumption growth. For 2017, India was ranked 143th among 186 countries in Index of Economic Freedom World Rankings. Hence, on the one hand, it witnessed high economic development, infrastructure development, and urbanization and on the other hand had a widening cleft between the rich and poor and class divide continues to plague the country. Social and human development remains absurdly low leading to a profoundly fragmented nations **.**

6.12 Exercise

Q1 what do you mean by globalization ?

Q2 what do you mean by FDI in India and its significance?

Q3 what is WTO and explain its functions?

Q4 Explains Liberalization Privatization and Globalization in the context of Five Year Plans.

Q5 Explain the NITI Aayog concept ?

6.13 Suggested Reading

- J. Lawrence Aber., Neil G. Bennett., Dalton C. Conley and Jiali Li (1997), The effects of poverty On child health and Development, Annu. Rev. Public Health, Vol. 18.
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LESSON - 7

POVERTY

Structure

7.0 Objectives

7.1 Introduction

7.2 Absolute Poverty and Relative Poverty

7.3 Measurement of Poverty

 7.3.1 Poverty Line

7.4 Poverty Estimation in the Independent India

7.5 Causes of Poverty in India

7.6 Major Problems Caused By Poverty:

 7.6.1 Impact of Poverty on Women:

 7.6.2 Impact of Poverty on Children's Mental Health:

7.7 Safety Nets for Poor—Poverty Alleviation Programmes Of Government:

 7.7.1 Poverty Alleviation Programmes In Tenth Plan:

 7.7.2 Poverty Alleviation Programmes In Eleventh Plan:

7.8 Remedial Measures

7.9 Summary

7.10 Exercise

7.11Glossary

7.12 Suggested Reading

7.0 Objectives

After reading this chapter, you will be able to:

- Define the concept of poverty;
- State the difference between Absolute Poverty and Relative Poverty;
- Identify the causes of poverty in India;

7.1 Introduction

Poverty is a plague as it is prevalent in almost all countries in the world and it has many faces and dimensions. Therefore it is difficult to define the concept poverty in precise.

Poverty is always defined according to the conventions of society in which it occurs. But in the recent years, the concept of poverty has been refined and made more comprehensive. The New World requires better and more scientific ways to assess the concept of poverty in the society. Now its multidimensional aspect is recognized and uses a multidisciplinary approach to assess poverty. Poverty is not simply a social phenomenon but also include economic, political, historical, geographical and cultural aspects. Various attempts have been made by societies to define poverty. In human terms poverty means little to eat and wear, and in economic terms the poverty means the inability to attain a minimum standard of living. It is natural to view poverty as the failure to meet the basic requirements to maintain a minimum standard of living. This minimum standard of living may vary from society to society. While biological requirement and nutritional norms provide the most elementary concept of a minimum standard of living, modern understanding of poverty requires other factors such as school enrolment, infant mortality, immunization, malnutrition, women empowerment, overall standard of living, asset holding etc.

Poverty can be defined as a social phenomenon in which a section of the society is unable to fulfill even its basic necessities of life. In India the generally accepted definition of poverty emphasizes minimum level of living rather than a reasonable level of living. In economics there are two important classification of poverty; Absolute Poverty' and 'Relative Poverty'.

7.2 Absolute Poverty and Relative Poverty

Absolute Poverty is the sheer deprivation or non-fulfillment of bare minimum needs of existence- of food, shelter, health or education. It is based on the absolute needs of the people and people are defined as poor when some absolute needs are not sufficiently satisfied. Hence according to this type poverty is treated as deprivation. Most of the developing countries are experiencing such type. An absolute poverty line is based on the cost of minimum consumption basket based on the food necessary for a recommended calorie intake.

Relative Poverty is related with high income countries, where people are poor because they cannot maintain or equivalent to others in the society. There should be differences in living standards among the people. It reflects economic distress, despair and dissension that stem from serious inequalities in income and wealth. The relative poverty line varies with the level of average income. Relative poverty is based on inequality and differences in standard of living. According to the relative concept of poverty, people are poor because from this classification we know that poverty is not inequality. Poverty is only one of the evil consequences of inequality. Whereas poverty is concerned with the absolute standard of living of a part of the society i.e.; the poor, inequality refers to relative living standards across the whole society.

7.3 Measurement of Poverty

Once we understand poverty, it is essential to measure it with its various dimensions. The measurement of poverty is needed to plan policies to check this global phenomenon. Many factors were listed, some of them are life expectancy, mortality, materiality, safe drinking water, pure air, women empowerment, energy consumption, literacy, asset holding, sanitation, primary health facilities, clean surroundings etc. most of these are derived with income. Therefore consumption data can be used to measure poverty.

7.3.1 Poverty Line

Poverty line is the most widely used measure for assessing poverty. Under this method, people are counted as poor when their measured standard of living is below a minimum acceptable level-known as Poverty Line. The poverty line in India is defined as ‘the level of private consumption expenditure, which ensures a food basket that would supply the required amount of calories’. Actually in India the Planning Commission estimates the poverty on the basis of Calorie intake. By considering age, sex, activity etc., Indian Council of Medical Research (ICMR) proposes 2400 calorie intake for the rural person per day and 2100 calorie per person per day in urban. The calorie requirements in the rural areas is higher because people engaged in heavy work more in rural areas than in urban areas.

7.4 Poverty Estimation in the Independent India

In independent India, the first official definition of poverty was given in 1962. This pegged the rural poverty line at a Monthly Family Income of Rs.100 and urban one at Rs.125.

Dandekar and Rath (1971) estimated poverty in terms of consumer expenditure needed a diet adequate at least inform of calories, they adopted 2250 calories per person per day as the norm for their study. According to them, the consumer expenditure necessary to obtain the minimum nutritional standard was an amount of Rs. 14.16 per capita per month at 1960-61 prices for rural India. Based on this norm, 30.92 percent of the rural population lies below the poverty line in 1961-62, in India.

Bhrdhan (1974) adopted the poverty line of Rs 15 at 1960-61 all India rural prices as the minimum level of living, and also estimate poverty for 1967-68 period, taking Rs. 29.90 as minimum requirement and find that in 1960-61 about 38% of rural Indians and in 1967 – 68, 53 percent of rural Indians are below poverty line.

The Planning Commission (1981 and 1985) measured the extent of rural poverty for 4 years taking Rs 77 (at 1979-80 prices) per capita per month as the poverty line. In 1977-78, about 51.2 percent of rural population was poor as against 54.1 percent in 1972-73. It comes down to 40.4 percent in 1983-84. The Planning Commission calculates the poverty ratio on the basis of quin quennial Consumer Expenditure Surveys conducted by NSSO. The Planning Commission’s estimates of the poverty ratio for 1987-88 indicated further decline in the incidence of poverty to 33.4 percent in 1987-88.

Criticising the Planning Commission’s earlier estimates, Minhas, Jain and Tendulkar (1991) measured the incidence of poverty by using correct procedure for three years 1970- 71, 1983 and 1987-88. They converted the poverty norms to prices prevailing in the year for which NSS consumer expenditure data are available. They worked out State Specific Cost of Living Indices. Then, applying these indices, they calculated State Specific Poverty norms for 1970-71, 1983 and 1987-88. The poverty norms for rural India were Rs. 33.01, Rs 93.16 and Rs. 122.63 for the years considered respectively. Corresponding to these poverty lines, the percentage of population below poverty lines were 57.3, 49.02 and 44.88 for the corresponding years.

Tendulkar and Jain (1995) estimated the incidence of poverty for 12 years from 1970- 71 to 1992. They estimated the poverty lines for various years taking the Planning Commission's all India poverty line of monthly per capita total expenditure of Rs. 49.09 at 1973-74 prices. Urban Poverty profile of the different authors are given in the Appendix, Even though the earlier estimates of Planning Commission is based on this calorie norms which is criticised because of methodological defects and it cannot consider the other basic items like health, education etc. Therefore Planning Commission appointed an Expert Committee, under

Suresh Tendulkar in 2008 and reported its recommendations in November 2009. The committee suggested a formula based on Consumption Expenditure for identifying BPL families. His recommendations are more scientific and there is some novelty in the measurement because Tendulkar committee uses a broad definition of poverty including expenditure for food, education, health etc., and uses consumer expenditure taking Mixed Recall Period as against Uniform Recall Period. According the committee the monthly consumption expenditure to measure poverty line is Rs. 446.68 per person per month in rural areas and Rs. 578.8 per person per month in urban areas. To their report India's poverty is 37.2 percent (2004-05) as against the Planning Commission's estimates of 27.5 percent in 2004-05 calculated on the basis of Dandekar- Rath formula based on calorie intake. Latest poverty estimates of Planning Commission are seen from the Table 7.1.

Table 7.1
Poverty Rates in Various NSSO Rounds

Year	Round	Poverty Rate (%)
1973-74	27	54.88
1977-78	32	51.32
1983	38	44.48
1987-88	43	38.86
1993-94	50	35.97
1999-00	55	26.10
2004-05	61	27.50
2009-10	66	29.80
2011-12	68	21.90

Source: Planning Commission, March, 2011 and NSSO Data

Planning Commission estimates India's poverty both on the basis of Uniform Recall Period (Uniform Recall Period took consumption in which the consumer expenditure data for all items are collected from 30- day recall period.) and Mixed Recall Period (Mixed Recall Period took consumption in which the consumer expenditure data for five non-food items, namely, clothing, footwear, durable goods, education and institutional medical expenses are collected from 365-day recall period and the consumption data for the remaining items are collected from 30-day recall period.). It consider Cost of Living as the basis of poverty.

Table 7.2
Poverty in India, New Estimates

Uniform Recall Period				Mixed Recall Period			
Years	**93-94**	**04-05**	**2009-10**	**99-00**	**04-05**	**2009-10**	**2011-12**
Rural	37.3	28.3	….	27.1	21.8	33.8	25.7
Urban	32.4	25.7	….	23.6	21.7	20.9	13.7
All India	36.0	27.5	….	26.1	21.8	29.8	21.9

Source: Economic Survey

In opposition to Tendulkar committee, Dr. N.C. Saxena committee was appointed by Rural Development Ministry in August 2008. This committee argued for a New BPL criterion, which suggests automatic inclusion of socially excluded groups and automatically exclusion of those who are relatively well-off. The committee recommended a new methodology of Score Based Ranking and put forwarded that Rs. 700 per month per rural person and Rs. 1000 per month per urban person to maintain 2400 and 2100 calorie intake for a day. The committee estimates that India's poverty is 49.1 percent in 2004-05.

According to Arjun Sengupta committee appointed by National Commission for Enterprises in the Unorganised Sector (NCEUS) India's poverty is 77 percent. The Committee uses the same data of NSSO and takes the norm of Rs. 20 per day per person to measure the poverty line.

Based on World Bank's estimates (2005), 41.6 percent of Indians fall below the International Poverty Line this of $ 1.25 per day (PPP). In nominal terms Rs. 21.69 per day in urban area and Rs. 14.3/day in the rural area. They estimate 456 million Indians lived in poverty. World Bank's new International Poverty Line is based on $ 2 per day.

Abbijith Sen found out that if we took calorie norm even then the poverty is much higher i.e.; in urban 80 percent and in rural 64 percent of the Indians are lived below poverty line. This estimate is also very higher than official estimate.

Table 7.3
Poverty line, 1973-74 to 2017-18

Year	Rs per capita per month, current prices	
	Rural	**Urban**
1973-74	49.63	56.76
1977-78	56.84	70.33
1983	89.50	115.65
1987-88	115.2	162.16
1993-94	205.84	281.35
1999-2000	327.56	454.11
2004-2005	356.30	538.60
2009-2010	672.80	859.60
2011-12	816	1000
2017-18	893	1311

Sources: Planning Commission NSSSO consumption expenditure survey2017-18

The Planning commission has updated the poverty lines and poverty ratios for the year 2009-10 as per the recommendations of the Tendulkar Committee using NSS 66 the round (2009-10) data from the Household Consumer Expenditure Survey. It has estimated that the poverty lines at all India level as an MPCE of Rs. 672.80 for rural and Rs. 859.60 for urban in 2009-10. Based on these cut-offs, the percentage of people living below the poverty line in the country has declined from 37.2 % in 2004-05 to 29.8 % in 2009-10.The estimates of poverty in per rupee per monthly expenditure are RS 816 in rural and RS 1000 in Urban area in 2011-12.It is increased by RS 893 in rural and RS 1311 in urban area in the year 2017-18.

7.5 Causes of Poverty in India

Poverty is not caused by any single reason. It is the outcome of the interaction of several factors; economic, non- economic, political, social, cultural, geographical etc.

1. Underdevelopment: The most important cause for poverty is the underdevelopment of the economy. Due to underdevelopment a large proportion of the people have go without even the basic necessities of life. With the low national income and per capita income the country cannot increase its aggregate consumption and investment. Hence the standard of living is also so low among the people. Even though there is much improvement in the development of the country after independence still we want to go a lot.

2. Inequality: The second important cause of poverty in India is inequality in income and wealth. Even the New Economic policies could not reduce the depth of inequality in India. Instead there is increase in inequality among the people.

3. Inadequate growth rate: In the early years of planning the growth rate of Indian economy is not high enough to check the problem of poverty. Even though economy railed in a high growth path in the mid of 2000 onwards the benefits are not trickle down to the poor sections of the society. Still the gap between rich and poor is increasing.

4. Large population: Even though the growth rate of population is coming down still the size of it is very large. Therefore it is not capable to implement the poverty alleviation programmes successfully.

5. Unemployment: Another major cause for the growth of poverty is unemployment. The problem of unemployment is still so acute in the economy. Thus increasing unemployment and underemployment accentuate poverty.

6. Poor performance of agriculture sector: Still Indian agriculture is carried on largely with primitive techniques. High dependency on rain, small and scattered holdings, lack of inputs, exploitative land tenure system, competition from foreign markets, lack of storage and marketing facilities etc. are responsive to the poor performance of agriculture sector even after the Green Revolution.

7. Poor performance of industrial sector: In spite of much improvement in line with development of modern industries still performance is not up to the mark. Lack of dynamic entrepreneurs, lack of competitiveness, lack of skilled and trained workers, inadequate finance, irregular supply of power and raw materials, poor transport and methods of production etc. leads to slow industrialization of the country.

8. Inflation: Rise in price is an alarming problem to the economy. It is the poor who suffered a lot due to inflation. When prices are high the purchasing power of money falls and leads to impoverishment of the poor sections of the country.

9. Social factors: It is agreed that the poverty in India is the outcome of social factors. It includes caste system, joint family system, law of inheritance, lack of initiative and entrepreneurship etc. India is also poor in social overheads like education, health, medical facilities, illiteracy etc. The attitudes and aspirations of the people are not conducive to economic growth and development.

10. Political factors: Even after India escaped from the yoke of British exploitative administration still the political set up is not that much efficient to solve the problem of poverty. It is true that various programmes are initiated under five year plans. The Fifth Five Year Plan raised the slogan “Garibi Hatao” but still the poverty alleviation is a nightmare to Indian policy makers.

Thus the poverty in India is happened due to various reasons. Regional disparities, lack of investment, lack of proper implementation of public distributive system, lack of vocational training and education, migration of rural youth to cities etc. have also contributed to poverty in India.

7.6 Major Problems Caused By Poverty:

7.6.1 Impact of Poverty on Women:

• Being female is reported to be a risk factor for common mental disorders. Studies from India have shown that poverty and deprivation are independently associated with the risk for common mental disorder in women and add to the sources of stress associated with womanhood.

• Interviews with relatives of young women in rural China who had committed suicide and the survivors of suicide attempts revealed that hopelessness was a core experience, associated with poverty, limited educational and work prospects and the migration of husbands to urban areas for employment; these were in addition to other issues such as stigma for failing to produce a son, spouse and family abuse and forced marriages.

• Within a household, studies reported that some members of the household go without certain goods and services in order to increase the amount available for others; parents most commonly go without on behalf of children and women are most likely to go without than men.

• Depression during pregnancy is a common problem and is associated with indicators of socio-economic deprivation as well as other problems such as violence and loss of an intimate relationship.

7.6.2 Impact of Poverty on Children's Mental Health:

• Research suggests that household income influences child mental health. Children from low income families appear to have higher levels of depression and anti-social behaviour -such as bullying, being cruel, breaking things, cheating or telling lies than children from more advantaged households. Children in chronically poor families show lower cognitive performance. A change in household income also influences the child's mental health. Drops in income increase depression and anti-social behaviour, while a move out of poverty and an improvement in household income results in improved child mental health.

• Poverty results in a less favourable family environment and poor quality parenting. It diminishes the ability of parents to provide supportive, consistent behaviour and may render parents more vulnerable to debilitating effects of life events. Parental mental health and behaviour in turn influences well-being of the child. The risk factors that additively influence a child's psychological adjustment include parents' employment and educational status, family size, maternal mental health, parental divorce, unsafe living environment, and parenting behaviours.

• It is evident that the child who experiences poverty may also experience other life adversities.

• Adolescents who experience poverty are more likely to engage in drug and alcohol use at earlier ages, initiate sexual activity earlier, have increased mental health problems, and lower levels of academic achievement. The changes in the family due to economic strain are linked to externalized behaviours (marked by defiance, impulsivity, hyperactivity, aggression and antisocial features) in boys and internalized behaviours (evidenced by withdrawal, dysphasia and anxiety) in girls.

25% Of All Global Maternal Deaths Are In India:

• In India, every 8 minutes one woman dies due to pregnancy related causes which are preventable. With the death of a mother her children are much more likely to die before age.

• In India, one child dies every 17 seconds due to easily preventable causes. On the scale of ‘best place to be a mother’, India ranks 75 out of 79 developing countries.

• India accounts for 25% of global child deaths.

• In India, only 10% of the wealthiest women deliver without trained health workers, compared to around an estimated 80% of the poorest women.

[Sources: Sample Registration Survey (SRS) 2004-2006, State of the World's Mother 2011, WRA-India leaflet 2011 – pdf]

WHO defines maternal mortality as the death of a woman during pregnancy or in the first 42 days after the birth of the child due to causes directly or indirectly linked with pregnancy. Globally, every year over 500,000 women die of pregnancy related causes and 99 percent of these occur in developing countries.

• The Maternal Mortality Ratio (MMR) in India is 254 per 100,000 live births according to Sample Registration System (SRS) Report for 2004-2006. This is a decline from the earlier ratio of 301 during 2001-2003.

• In the region, the MMR in China stands at 45, Sri Lanka at 58, Bangladesh at 570, Nepal at 830 and Pakistan at 320 in 2006.

• Wide disparities exist across states in India. The MMR ranges from 95 in Kerala to 480 in Assam.

• MMR has a direct impact on infant mortality Babies whose mothers die during the first 6 weeks of their lives are far more likely to die in the first two years of life than babies whose mothers survive.

• Only 47 per cent of women likely in India have an institutional delivery and 53 percent had their births assisted by a skilled birth attendant. As many as 49 percent of pregnant women still do not have three antenatal visits during pregnancy. Only 46.6 percent of mothers receive iron and folic acid for at least 100 days during (pregnancyhttp://hetv.org/india/index.html).

7.7 Safety Nets for Poor—Poverty Alleviation Programmes Of Government:

Since India became part of the global economy and underwent economic reform in 1991, its economy is growing at a faster rate of nearly 10 per cent per annum1. In the process, India has become the fourth largest economy in the world. In the last two decades, a significant proportion of the population across the country has reaped the benefits of this economic growth. They have become the part of global economy and market, and their lives have transformed into one of global citizens with all the comforts and luxury in life.

Apart from this burgeoning middle class in the country, the economic growth seemed to have touched the lives of the poor also. According to the National Sample Survey results, people living below poverty line have dramatically come down during the post economic reform era. Poverty alleviation programmes have assumed relevance as it is proved globally that the so-called 'trickle-down effect' does not work in all the societies and India is no exception to this. In recent times, there has been a significant shift in focus in the poverty literature away from the ‘trickle-down’ concept of growth towards the idea of ‘pro-poor growth’, which enables the poor to actively participate in and benefit from economic activities. Hence, the strategy of targeting the poor was adopted in India and the economic philosophy behind these special programmes was that special preferential treatment was necessary to enable the poor to participate in economic development. Inclusive growth also focuses on productive employment for the excluded groups. Poverty alleviation programmes have been designed from time to time to enlarge the income-earning opportunities for the poor. The programmes and schemes have been modified, consolidated, expanded and improved over time. These programmes are broadly classified into: The targeted programmes fall into four broad categories: (i) self-employment programmes (ii) wage employment programmes (iii) direct cash transfers to the targeted groups and (iv) Public distribution system (PDS). There are numerous centrally sponsored schemes (CSS) under the first three categories which are designed by the Centre, administered by the Ministry of Rural Development, but implemented by the States with States generally contributing 25% to their cost. In addition, some State governments have their own schemes. The multiplicity of the programs is advocated on the grounds of multi-dimensionality of poverty and regional variations in the efficacy of the delivery system. There is also recognition that it is problematic to close a scheme even if it is cost ineffective because of adverse publicity associated with the closure. Through PDS, the Central government is supplying six essential commodities at below market prices to 160 million families through 4,50,000 nationwide fair price shops. The access to the system was near-universal until 1997. Targeting was introduced in 1997, and now the program is known as Targeted Public Distribution System (TPDS). One of the important features of the implementing strategy of the 10th Five Year Plan is the crucial role given to the Panchayati Raj Institutions (PRIs) in the delivery of TPDS. Till the end of 11th plan, Govt. of India aims at bringing down people below poverty line to the extent of 10%. Following programmes have been introduced by the Govt. of India for solving the problems.

Prime Minister’s Rozgar Yojana (PMRY):

PMRY started in 1993 with the objective of making available self-employment opportunities to the educated unemployed youth by assisting them in setting up any economically viable activity. So far, about 20 lakh units have been set up under the PMRY, creating 30.4 lakh additional employment opportunities. The targets for additional employment opportunities under the Tenth Plan and in 2004-05 are 16.50 lakh and 3.75 lakh, respectively. While the REGP is implemented in the rural areas and small towns (population up to 20,000) for setting up village industries without any cap on income, educational qualification or age of the beneficiary, PMRY is meant for educated unemployed youth with family income of up to Rs.40, 000 per annum, in both urban and rural areas, for engaging in any economically viable activity.

Rural Employment Generation Programme (REGP):

REGP, launched in 1995 with the objective of creating self-employment opportunities in the rural areas and small towns, is being implemented by the Khadi and

Village Industries Commission (KVIC). Under REGP, entrepreneurs can establish village industries by availing of margin money assistance from the KVIC and bank loans, for projects with a maximum cost of Rs.25 lakh. Since the inception of REGP, up to 31 March 2004, 1,86,252 projects have been financed and 22.75 lakh job opportunities created. A target of creating 25 lakh new jobs has been set for the REGP during the Tenth Plan. 8.32 lakh employment opportunities have already been created during 2003-04. For 2004-05, a target of creating 5.25 lakh job opportunities has been fixed.

National Social Assistance Programme (NSAP):

This programmes was launched in during 1995-96. It provides three types of services to poor people. (a) National Family Benefit Scheme (b) National Old Age Pension Scheme (c) National Maternity Benefit Scheme. Whole of expenditure on this scheme is spent by central government but since April 2001, NMBC has been handed over to ministry of health and family welfare.

Swarna Jayanti Shahri Rozgar Yojana (SJSRY):

This programme was launched in Dec. 1, 1997. its main object is to provide self employment to unemployed youth of urban areas. It includes youth educated up to 9th standard yet living below poverty line. It is also based upon 75% centre and 25% state's contribution in expenditure required for the scheme. The expenditure during 2003-04 was Rs.103 crore. For 2004-05, the allocation is Rs.103 crore, out of which Rs. 90.38 crore were utilized by December 31, 2004.In 2008-2009, 9.47 Lakh beneficiaries were covered under it. Rs. 541 crore was spent on this plan in 2008-09.

Swaran Jayanti Gram Swarozgar Yojana (SGSY):

SGSY, launched in April 1999, aims at bringing the assisted poor families (Swarozgaris) above the poverty line by organizing them into Self Help Groups (SHGs) through a mix of Bank credit and Government subsidy. In this scheme IRDP and other programmes have been included. Under this scheme, poor are granted bank loans and subsidies to establish small enterprises. This scheme is centrally sponsored on 75: 25 basis, by centre and states. From this programme about 121 lakh self-employed persons were benefited upto 2009. Rs. 27183 crore was spent on this plan in 2008-09[22].

Indira Awaas Yojana (IAY):

This is a major scheme for construction of houses of unserviceable kutcha houses to semi- pucca houses has also been added. From 1999-2000, the criteria for allocation of funds to states/UTs has been changed from poverty ratio to the housing shortage in the state. Similarly, the criteria for allocation of funds to a district have been changed to equally reflect the SC/ST population and the housing shortage. During 2007-08 Rs. 4033 crores have been earmarked for constructing 21.27 lakh houses. As per information by the states 9.40 Lakh houses have been built upto 2008. The Ministry of Rural Development (MORD) provides equity support to the Housing and Urban Development Corporation (HUDCO) for this purpose.

Antyodaya Anna Yojana (AAY):

AAY launched in December 2000 provides food grains at a highly subsidized rate of Rs.2.00 per kg for wheat and Rs.3.00 per kg for rice to the poor families under the Targeted Public Distribution System (TPDS). The scale of issue, which was initially 25 kg per family per month, was increased to 35 kg per family per month from April 1, 2002. The scheme initially for one crore families was expanded in June 2003 by adding another 50 lakh BPL families. During 2003-04, under the AAY, against an allocation of 45.56 lakh tonnes of food grains, 41.65 tonnes were lifted by the State/UT Governments. Budget 2004-05 expanded the scheme further from August 1, 2004 by adding another 50 lakh BPL families. With this increase, 2 crore families have been covered under the AAY.

Pradhan Mantri Gram Sadak Yojana (PMGSY):

The PMGSY, launched in December 2000 as a 100 per cent Centrally Sponsored Scheme, aims at providing rural connectivity to unconnected habitations with population of 500 persons or more in the rural areas by the end of the Tenth Plan period. Augmenting and modernising rural roads has been included as an item of the NCMP. The programme is funded mainly from the accruals of diesel cess in the Central Road Fund. In addition, support of the multi-lateral funding agencies and the domestic financial institutions are being obtained to meet the financial requirements of the programme. Up to October, 2004, with an expenditure of Rs 7,866 crore, total length of 60,024 km. of road works has been completed. The National Rural Roads Development Agency (NRRDA), an agency of the Ministry of Rural Development registered under the Societies Registration Act, provides operational and technical support for the programme. In 2008-09, Rs. 46807 crores were spent on this plan. About 2.14 Lakh kms road length was completed. According to this scheme, Rs. 60000 crores are to be spent in seven years. It is expected that by the end of this scheme, 10 crores of rural villagers will be uplifted from poverty line.

Annpurna Yojana:

This scheme was initiated on 1st April, 2000. It is 100% centrally sponsored plan. It provides food grains to senior citizens. It involves those citizens who come under old age pension scheme, yet do not get any pension and 10 kgs of food grains, free of cost is given to each individual. Since 2002-03, this scheme has been handed over to states.

Pradhan Mantri Gramodaya Yojana (PMGY):

PMGY launched in 2000-01 envisages allocation of Additional Central Assistance (ACA) to the States and UTs for selected basic services such as primary health, primary education, rural shelter, rural drinking water, nutrition and rural electrification. For 2003-04 as well as 2004-05, the annual allocation of ACA for PMGY was Rs.2, 800 crore.

Valmiki Ambedkar Awas Yojana (VAMBAY):

The VAMBAY launched in December 2001 facilitates the construction and up gradation of dwelling units for the slum dwellers and provides a healthy and enabling urban environment through community toilets under Nirmal Bharat Abhiyan, a component of the scheme. The Central Government provides a subsidy of 50 per cent, the balance 50 per cent being arranged by the State Government. Since its inception and up to December 31, 2004, Rs. 753 crore have been released as Government of India subsidy for the construction/up gradation of 3,50,084 dwelling units and 49,312 toilet seats under the scheme. For the year 2004-05, out of the tentative Central Fund allocation of Rs.280.58 crore, up to December 31, 2004, an amount of Rs. 223.66 crore has been released covering 1,06,136 dwelling units and 20,139 toilet seats.

National Food For Work Programme:

In line with the NCMP, National Food for Work Programme was launched on November 14, 2004 in 150 most backward districts of the country with the objective to intensify the generation of supplementary wage employment. The programme is open to all rural poor who are in need of wage employment and desire to do manual unskilled work. It is implemented as a 100 per cent centrally sponsored scheme and the food grains are provided to States free of cost. However, the transportation cost, handling charges and taxes on food grains are the responsibility of the States. The collector is the nodal officer at the district level and has the overall responsibility of planning, implementation, coordination, monitoring and supervision. For 2004-05, Rs.2020 crore has been allocated for the programme in addition to 20 lakh tones of food grains.

National Rural Employment Guarantee Scheme (NREGS):

This scheme was introduced on February 2, 2006. for this scheme national rural employment guarantee act was passed on 7th September, 2005. in this scheme two schemes have been included (a) Sampooran Gramin Rozgar Yojana and (b) National Food For Work Programme. This NREGS scheme was started in 200 districts in the beginning. It will be launched in all the districts throughout the country within periods of 5 years. The main objective is to provide at least 100 days employment to every family in a year. Under this scheme 56 Lakh people got employment in 2006-07. This scheme will be expanded from 200 in 2006-07 to 596 districts in 2008-09. In the budget of 2009-10 Rs. 30,100 crore has been fixed. According to the need budget can be exceeded.

Public Distribution System:

Poor people are provided food grains on cheaper rates through 4 Lakh fair price shops so as to assure food security to them. In some states, this scheme is implemented in both rural and urban areas. Almost 3% of government budget is spent on this scheme. Public distribution system has helped the poor people to some extent. For the success of this plan PDS system has been computerized in 2007-08. Under this scheme, there was a provision of Rs. 32667 crore for food subsidy in 2008-09.

Prime Minister Employment Generation Programme (PMEGP):

This programme was introduced by the govt. in 15th August 2008. In it two employment programmes have been merged.

(i) Prime Ministert Rozgar Yojana (ii) Rural Employment Generation Programme. The main objective of these programmes is to generate new employment opportunities through micro enterprises. About 37 La opportunities would be generated. For this purpose Rs. 740 crore would be spent in 2008-09 and Rs. 4485 crore during next four years.

Drought Prone Areas Programme (DPAP), Desert Development Programme (DDP) and Integrated Wastelands Development Programme (IWDP):

DPAP, DDP and IWDP are being implemented for the development of wastelands/degraded lands. During 2004-05 allocation of Rs. 300 crore, Rs. 215 crore and Rs. 368 crore were provided for DPAP, DDP and IWDP, respectively. So far, during 2004-05, 2,550 projects covering 12.75 lakh hectares, 1,600 projects covering 8 lakh hectares and 165 projects covering 8.32 lakh hectares, have been sanctioned under DPAP, DDP and IWDP, respectively.

Small and Cottage Industries:

Government for alleviating poverty and unemployment has paid special attention for the development of small and cottage industry. This sector is already providing employment to 238 Lakh people. It encourages self employment schemes by spending heavy expenditure on it. In 2006-07, business limit for small entrepreneurs has been raised from Rs. 3 crore to Rs. 4 crore. In the budget of 2007-08 excise duty exemption has been raised from Rs. 1 crore to 1.5 crore. It will help in raising employment opportunities in small scale industries.

Integrated Child Development Scheme (ICDS):

Under this scheme mothers and children below 6 years have got some financial aid. Govt. has approved 5959 (ICDS) projects in 2007-08. For this purpose Rs. 6300 crore has been allocated in 2008-09 and 6705 crore in 2009-10.

Mid Day Meals Scheme (MDMS):

Under this scheme, school children are provided with free mid day meals. The children in primary classes have been covered under this scheme. Under this scheme, 2.5 crore additional children got benefit it. Children in primary classes and upper primary classes have been covered in 2008-09 (Verma and Pardeep, 2010). For this purpose Amount of Rs. 8000 crore was spent in 2009-10.

7.7.1 Poverty Alleviation Programmes In Tenth Plan:

Indian Govt. had kept Rs. 3,47,391 crores in tenth plan for the development of social services, which was 22.8% of total public outlay. This amount was spent on education, medical and public health, housing and urban development for uplifting the poor section. Its main object was to reduce poverty on percentage basis at 5% in urban sector and 15% in rural sector.

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA):

MGNREGA was started in 2006-07 and extended to cover the whole country during the 11th Plan. With a people centred, demand-driven architecture, completely different from the earlier rural employment programmes, MGNREGA has directly led to the creation of 987 crore person-days of work since its inception in 2006-07. In financial year 2010-11, MGNREGA provided employment to 5.45 crore households generating

253.68 crore person-days. It has also successfully raised the negotiating power of agricultural labour, resulting in higher agricultural wages, improved economic outcomes leading to reduction in distress migration. This is not to deny that with better project design, implementation leakages could be greatly reduced; and the assets so created could make a larger contribution towards increase in land productivity.

7.7.2 Poverty Alleviation Programmes In Eleventh Plan:

Under this plan following programmes were adopted for poverty alleviation:

1. Special efforts were made for the development of small and rural industries so as to provide employment in rural sector in non agricultural areas.

2. Special efforts were made for consolidating economic conditions off marginal and small farmers, artisans and untrained labourers.

3. Under NREGS 100 days employment were provided soon after the registration of 15 days.

4. Aam Adami Bima Yojana has been launched from October 2, 2007.

Besides, other initiatives undertaken to alleviate poverty include price supports, food subsidy, land reforms, Area Development Programmes, improving agricultural techniques, free electricity for farmers, water rates, PRIs, growth of rural banking system, grain banks, seed banks, etc. Such endeavours not only reduced poverty but also empowered the poor to find solution to their economic problems. For instance, the wage employment programmes have resulted in creation of community assets as well as assets for the downtrodden besides providing wage employment to the poor. Self-employment programmes, by adopting SHG approach have led to mainstreaming the poor to join the economic development of the country. But the focus on the sustainable income generation still remains elusive. A review of different poverty alleviation programmes shows that there has been erosion in the programmes in terms of resource allocation, implementation, bureaucratic controls, non involvement of local communities, etc. NABARD has also been contributing in Rural Poverty Alleviation through its various initiatives/ schemes like SHG Bank Linkage Programme, watershed development, tribal development, CDP, REDP, ARWIND, MAHIMA, support to weavers, RIDF, R&D Fund, etc. The Eleventh Plan gave a special impetus to several programmes aimed at building rural and urban infrastructure and providing basic services with the objective of increasing inclusiveness and reducing poverty.

Table 7.4:
The ELEVENTH PLAN (XI th) plan allocation under various schemes/programmes

S.No.	Scheme/Programme	Proposed out lay XIth Five Year (2007-2012) (Lakh Rs.)
1.	SJGSY	29656.12
2.	SGRY	18016.64
3.	DPIP9SS (EAP) / EAPII Phase	23158.72
4	Rural roads	50000.00
5	Indira Avas Yojana	27766.71
6	IWDP	10598.56

7	DRDA	6012.36
8	DPAP	21294.84
9	Gramin Ajivika Pariyaojna	22480.00
10	National Rural Rojgar Gurantee Scheme	199881.85
11	MP Rojgar Gurantee Council	3800.00
12	Mid day meal	69.462.00
13	BRGF	225695.00
14	Community Development	29265.20
15	Walmi	1250.00
16	Raod maintenance	2030.00
17	State rural road Connectivity	8647.60
18	CM Awas Yojana (Apna Ghar)	6200.00
19	State SGSY	1800.00
20	Training	50.00
21	Master Plan	1363.00
22	Sutradhar scheme	50.00
23	Gokul Gram adhosanrachan	5000.00
24	Godan Yojana	1000.00
	Grand Total	**7,64,478.50**

Source: Ministry of Rural Development

7.8 Remedial Measures

Poverty is a tragedy not only for the individuals but also for the economy at large. As a result of this the remedial measures to poverty is emphasized. From the experiences of the economy we can suggest the following to alleviate poverty.

1. Rapid Economic Growth

Fast economic growth is a necessary condition for poverty alleviation programme for the following reasons: It changes the low income agricultural set up, helps to strengthen the redistributive activities of the government, made a radical change in production and distribution process, create more employment opportunities etc. Even there is the possibility of trickledown effect to economic growth.

2. Accelerate agricultural growth

No doubt that when there is agricultural growth it reduces the burden of poverty because majority of poor are lived with agriculture sector. So steps should be taken to solve the problems of small and marginal farmers.

3. Accelerate industrial growth

The industrial development will create more income and employment opportunities to the people. Through this the depth of poverty can be reduced.

4. Development of small- scale and cottage industries

In Indian economy small- scale and cottage industries have played a crucial role. This sector which being labour intensive, create more employment opportunities and help in the removal of poverty.

5. Land reforms

Land reforms as poverty alleviation measures aimed to break the old feudal socioeconomic structure of land ownership. It aims to eliminate exploitation by providing security of tenure and regulation of rent. It also aims to bring direct contact between the state and the tiller and give social economic status of the landless by distributive measures.

6. Better Public Distributive System

Poverty can be reduced if people are ensured with essential commodities at fair prices. Therefore the government should establish a wide network of fair price shops to provide the essential commodities.

7. Control Population

Unless the population is not reduced, the additions to wealth production will be eaten up by the fresh torrent of babies. Therefore the planners should aim at the family planning measures to bring down the birth in the country.

8. Provision of Common Services and social Security

The government should spend for the provision of free common services like primary education, medical aid, potable drinking water, housing and other facilities to the people. This will increase their real consumption and make them feel better off and hence reduce the poverty.

9. Improve the Status of the Women

Gender equality can help to reduce poverty and encourage growth in variety of ways. Women are provided with direct access to institutional credit, direct membership in cooperatives, setting up of women organization etc.

10. Good Administrative Setup

Above all the success of any programme primarily depends on the effective working of the administrative machinery.

7.9 Summary

Debate on poverty in India has remained mostly in the domain of economists. Poverty is defined in terms of income, expenditure and nutritional value (calorie intake). Social dimension of poverty is a neglected area of study. Poverty is more of social marginalisation of an individual, household or group in the community/society rather than inadequacy of income to fulfil the basic needs. Indeed, inadequate income is therefore one of the factors of marginalisation but not the sole factor. The goal of poverty alleviation programme should aim merely increasing the income level of individual, household or group but mainstreaming marginalised in the development process of the country. The country cannot claim economic growth when sections of the people are marginalised to the periphery of the society. The rapid economic growth process should accelerate the access to services like education and health services for all, especially the marginalised citizens. The government should also aware the rural population about the importance of small family and mortality rate. Poverty give birth too many other problems. The link between ignorance and poverty and ill health and poverty are well-established. There are diseases of poverty such as malaria, tuberculosis, diarrhoea and malnutrition. Having fallen ill due to poverty, the poor do not have the resources to seek quality health care, for which he/she has to borrow money for treatment. Indebtness due to hospitalisation leading to poverty has been well documented. Poverty therefore is a complex phenomenon of many dimensions not merely the economic dimension. So government should provide better medical facilities, drinking water facilities and education so that people living below poverty line can improve their lives.

Exercise 7.10

1. What do you mean by poverty? Explain the causes of poverty in India.
2. List some of the poverty Alleviation Programmes adopted by govt of India during 10th Five Year Plan?
3. Discuss the various measures adopted by the government to eradicate the poverty?
4. What is meant by the poverty line? What is the difference between the Absolute Poverty and Relative Poverty?

7.11 Glossary

- **Poverty Line:** Poverty line is the income/expenditure cut-offs used to identify the poor from non-poor. This is the minimum requirement of an individual for a healthy living. The minimum requirement can include both food and non-food items.
- **Absolute Poverty** is the sheer deprivation or non-fulfilment of bare minimum needs of existence- of food, shelter, health or education. It is based on the absolute needs of the people and people are defined as poor when some absolute needs are not sufficiently satisfied.
- **Relative Poverty** is related with high income countries, where people are poor because they cannot maintain or equivalent to others in the society. There should be differences in living standards among the people. It reflects economic distress, despair and dissension that stem from serious inequalities in income and wealth.

7.12 Suggested Reading

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LESSON 8
INEQUALITY

Structure

8.0 Objective

8.1 Introduction

8.2 Meaning of Inequality

8.3 Inequality in India

8.4 Inequality in Income and Consumption

8.5 Inequality in Assets

8.6 Regional Inequality

8.7 Inequality Measurement: The Income and Non-Income Measure

8.7.1 The Income Measure

8.7.2 The Non Income Measure

8.8 Causes of Inequality in India

8.9 Remedial measures

8.10 Summary

8.11 Glossary

8.12 Answers to self check Exercises

8.13 Suggested Readings

8.14 Terminal Questions

8.0 Objective

After reading this chapter, you will be able to:

- explain the concept of inequality;
- identify the income and non-income measures of inequality;
- analyse the level of inequality in India

8.1 Introduction

While the concept of poverty is rooted in the "lack of access" or "a low level of access" to food, nutrition, shelter, education and other services. Inequality is related to "unequal access" or "different degrees of access" of different individuals or groups of individuals to opportunities, services and benefits. Inequality is, thus, a more general concept than poverty. It looks at the relative levels of access of different groups to development opportunities and benefits. The "different levels of access" in the concept of inequality also include the low level of access below which people are considered poor. In fact, the low level of access or the limit (like for example, the calorie limit for consumption) that may be set for defining poverty will itself include a number of lower levels of access.

8.2 Meaning of Inequality

Literally, inequality means the lack of evenness or social disparity or disparity of distribution or opportunity, services, benefits or being unequal. In other words inequality is related to unequal access or different degrees of access of different individuals or groups of individuals to these opportunities, services and benefits. It looks at the relative levels of access of different groups to development opportunities and benefits. As inequality increases disparity also increases. The inequality occurs due to physical attributes (distribution of natural ability is not equal), personal preference (distribution between leisure and work), social process (pressure to work or not to work varies) and public policies (policy affects distribution of resources). The analysis of inequality helps the policy maker to target a particular group of people or to a particular area.

8.3 Inequality in India

India is shining for only a select few. The impressive economic growth of our country has brought smiles on the faces of the rich and the powerful even as the rest suffer in distress and drudgery. This was revealed by the Human Development Report, 2011 (HDR) released by Planning Commission. The report highlights the skewed income and wealth distribution in India and the widening gap between the rich and the poor.

According to HDR 2011, inequality in India for the period 2010-11 in terms of the income Gini coefficient was 36.8. India’s Gini index was more favourable than those of comparable countries like South Africa (57.8), Brazil (53.9), Thailand (53.6), Turkey (39.7), China (41.5), Sri Lanka (40.3), Malaysia (46.2), Vietnam (37.6), and even the USA (40.8), Hong Kong (43.4), Argentina (45.8), Israel (39.2), and Bulgaria (45.3) which are otherwise ranked very high in human development.

There are three important types of inequality exist in India, namely inequality in income and consumption, inequality in assets and regional inequality. These three forms of inequality are interrelated and mutually reinforcing. The Government of India has been concerned about rising inequalities and uneven distribution of the benefits of growth.

Accordingly, the thrust of the 11th Five-Year Plan (2007-12) was on inclusive growth. The forthcoming 12th Five-Year Plan is expected to deepen and sharpen the focus on inequalities.

8.4 Inequality in Income and Consumption

Let us look at levels of inequality in income or consumption. Consumer expenditure of households is a good proxy for income, at least in the lower classes. A study of inequalities in levels of consumption will by itself be useful in an economy where agriculture, the unorganised sector, payment of wages in kind and the nonmonetised sector still play an important role. Such an analysis will be able to pinpoint attention on specific areas of concern in the consumption pyramid. Let us, therefore, turn to levels of inequality in consumption. The household consumer expenditure surveys of the NSSO provide the levels of consumption of expenditure in the population by Monthly Per capita Consumer Expenditure (MPCE) classes. The Average MPCE of the rural people in India is only Rs.1054 and in Urban it is Rs.1984.

Table: 8.1

Share of Household Expenditure by Percentile Groups of Households (in %)

Percentile groups of Households	1989-90	1994	1997	2004-05
Lowest 20 percent	8.8	9.2	8.1	8.1
Second quintile	12.5	13.0	11.0	11.3
Third quintile	16.2	16.8	15.0	14.9
Fourth quintile	21.3	21.7	19.3	20.4
Highest 20 percent	41.3	39.3	46.1	45.3
Highest 10 percent	27.1	25.0	33.5	31.1

Source: *World Development* Report

A comparison of the share of the bottom 10 per cent (or 20 per cent or 50 per cent) of the population in total consumption with that of the top 10 per cent (or 20 per cent or 50 per cent) of the population brings out dramatically the extent of inequality in consumption. The inequality situation is worse in urban areas than in rural areas. This is so in all States and Union Territories. Inequality in consumption is declining, *albeit* slowly, in rural areas according to all measures of inequality. On the other hand, urban inequality shows no sign of any decline.

8.5 Inequality in Assets

Incomes are derived from two main sources. Namely, assets like land, cattle, shares and labour etc. In India a few own a large chunk of income-earning assets therefore the distribution of assets is extremely unequal. The top 5 per cent of the households possess 38 per cent of the total assets and the bottom 60 per cent of households owning a mere 13 per cent. The disparity is more glaring in the urban areas where 60 per cent of the households at the bottom own just 10 per cent of the assets. Predictably, asset accumulation is minimal among the agricultural labour households in rural areas and casual labour households in urban areas. But the asset distribution is even more unequal in the urban than in the rural areas. At the one extreme there are highly rich households of industrial, commercial, financial, and real estate magnates and some ex-princes and political leaders. They own enormous assets and running for huge profits. On the other extreme there are slums, and pavement dwellers, unemployed and casual labourers, independent workers providing petty services etc. who generally hold negligible assets.

8.6 Regional Inequality

Third important type of inequality that India faces is the regional inequality. Some states are economically and socially advanced while others are backward. Even within each state some regions are more developed while others are primitive. The co existence of relatively developed and economically depressed states and even regions within each state is known as regional inequality. The existence of regional inequality creates social, economic and political issues. The regional inequality is so prominent in India in the case of HDI Value, growth of the economy, poverty, unemployment, education, health, monthly per capita expenditure, rural- urban divide etc.

The India Human Development Report, 2013 shows that India has a HDI value of 0.547. The HDI is the highest for Kerala (0.790) followed by Goa (0.617) and then Punjab (0.605) and the lowest for Chhattisgarh (0.358), Odisha (0.362) and Bihar (0.367). While the HDI scores across states show little variation the variation in the sub-indices for education and health show a greater degree of variation. The income index shows the least degree of variation. The major states are distributed between the categories of countries with 'Medium' and 'Low Human Development' as per the HDR 2011 classification. Kerala is in the 'Medium HDI' category. Other major states in this group are Punjab, Himachal Pradesh, Haryana, Maharashtra, Tamil Nadu, Karnataka, Gujarat, West Bengal and Uttarakhand. Nine other states, namely Andhra Pradesh, Assam, Uttar Pradesh, Rajasthan, Jharkhand, Madhya Pradesh, Chhattisgarh, Bihar and Odisha fall in the 'Low HDI' category India is ranked 134 out of 187 countries in the Global HDI,2011. Odisha, Chhattisgarh, and Gujarat and the worst performers were Karnataka, Rajasthan, and Jharkhand. States with above 10 per cent growth rate for the period 2004-5 to 2009-10 are Uttarakhand, followed by Maharashtra, Gujarat, and Bihar.

The state-wise estimates of poverty as recomputed by the Tendulkar Committee show that the highest poverty headcount ratios (PHRs) for 2009-10exist in Odisha (57.2 per cent), followed by Bihar (54.4 per cent) and Chhattisgarh (49.4 per cent) against the national average of 37.2 per cent. The unemployment rate (per 1000) according to usual status (adjusted) as per the NSS 66th round 2009-10 among the major states is lowest in Rajasthan(4) and highest in Kerala(75) in rural areas and the lowest in Gujarat(18) and highest again in Kerala(73) and Bihar(73) in urban areas.

In the area of education, Madhya Pradesh has the highest GER (6-13 years) in 2008-09 while Punjab has the lowest. Pupil-teacher ratios in primary and middle/basic schools are the lowest in Himachal Pradesh and high in states like Bihar and Uttar Pradesh. Health-wise, Kerala is the best performer and Madhya Pradesh the worst in terms of life expectancy at birth (both male and female) during 2002-6. IMR in 2010 is also the lowest in Kerala and highest in Madhya Pradesh. Kerala has the lowest and Uttar Pradesh the highest birth rate in 2010, followed by Bihar and Madhya Pradesh. Odisha has the highest and interestingly West Bengal the lowest death rate.

The MPCE indicator shows that there is disparity both in the MPCE and food share across states .According to the 66th round NSSO round estimates India's average monthly per capita expenditure is Rs .1053.64 crore rural and Rs. 1984.46 in urban areas. Bihar has the lowest MPCE of Rs 780 with 65 per cent food share in rural areas and Rs 1238 with 53 per cent food share in urban areas whereas Kerala has the highest MPCE of Rs 1835 with 46 per cent food share in rural areas and Rs 2413 with 40 per cent food share in urban areas. States with low average MPCE tend to have a higher share of food in total consumer expenditure as food is the primary need for survival and takes up a larger proportion of overall expenditure in the poorer sections of population. The top states spending more than the national average on food items both in rural and urban India are Bihar, Assam, Odisha, and Jharkhand.

Turning to the rural urban gap, we begin with the Monthly per capita expenditure (MPCE) defined first at household level to assign a value that indicates level of living to each individual or household. Based on the 68th round (2011-12) of the National Sample Survey (NSS), average MPCE [Uniform Reference Period (URP) based] is Rs. 1281.45 and Rs.2401.68 respectively for rural and urban India at the all India level indicating rural-urban income disparities. Out of the MPCE, the share of food is 53.6 per cent and Rs. 40.7 per cent for rural and urban India respectively which shows that food share is more in rural India as compared to urban India.

8.7 Inequality Measurement: The Income and Non-Income Measure

8.7.1 The Income Measure

There are different methods to measure inequality. The most commonly used measures of inequality are as follows:

Range: The range is simply the difference between the highest and lowest observation. If we have four observation i.e. 115, 78, 45, 220, the range will be equal to (220–45) =175. This method is very simple and easy to calculate and at the first hand gives us an impression on inequality. But the serious drawback of this method is that it ignores all other observations excluding two. The result is heavily affected by skewed out liers.

Range Ratio: Range ratio is calculated by dividing the income/expenditure of predetermined highest and lowest percentile. For example, if the income of 15 persons are 45, 48, 78, 87, 98, 120, 200, 221, 238, 250, 252, 267, 287, 322, 327 respectively and if we choose the 95th and 5th percentile than the range ratio will be 95th Percentile {(95/100×15)=14th person’s income}322/ 5th percentile {(5/

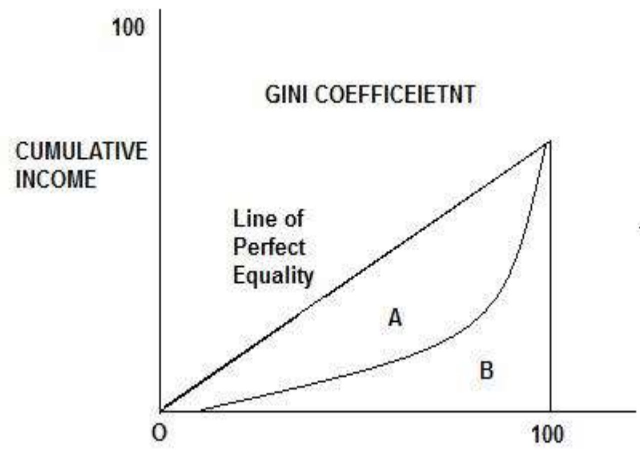
100×15)= 1st Person’s income}45=7.16 This method is easy to understand and calculate and also minimise to some extent the heavy out layer. Like range method, the range ratio also has taken into account only two observations and this does not weigh other observations.

Coefficient of Variation

The coefficient of variation (CV) is a distribution’s standard deviation divided by its mean.

Lorenz Curve

Lorenz Curve is a graphical representation of the proportionality of a distribution. It represents a probability distribution of statistical values, and is often associated with income distribution calculations and commonly used in the analysis of inequality. The population in the Lorenz curve is represented as households and plotted on the x axis from 0 per cent to 100 per cent. The income is plotted on the y axis and is also from 0 per cent to 100 per cent.



This can be plotted by a graph. In the graph shown below OX axis represents percentage of population and OY axis represents percentage of income. If income distribution were perfectly equal then the cumulative percentage population will be exactly equal to cumulative percentage of income. The perfect equality line forms an angle of 45 degrees with a slope of 100/N. The Gini coefficient is derived from the Lorenz curve. The Gini coefficient is defined graphically as a ratio of two surfaces involving the summation of all vertical deviations between the Lorenz curve and the perfect equality line (A) divided by the difference between the perfect equality and perfect inequality lines (A+B).If the area between the line of perfect equality and Lorenz curve is A, and the area under the Lorenz curve is B, then the Gini coefficient is A/(A + B).

The major limitation of the method is that when comparing two Lorenz curves, it is not possible to determine which distribution has more inequality if the two curves intersect. It does not take into account the life time income. The construction of a Lorenz curve does not consider the ages of the persons, who receives income. The income of a young individual who enters jobs recently, those in midcareer and those of the old people who have retired, are not the same. But the Lorenz curve does not distinguish incomes by ages and reflects inequalities across all ages. It is therefore not correct to group the incomes of the people belonging to different age groups for measuring income inequality.

8.7.2 The Non-Income Measures

As analysed in the above section, the quality of life is measured in terms of both income and non-income aspect. The non-income aspect includes the access to safe drinking water, access to sanitation, access to education and health, employment opportunity. The levels of access of different facilities are measured in terms of inequality indicators. The level of access of different services varies among social groups, gender, geographical areas etc.

8.8 Causes of Inequality in India

1. **Private ownership of means of production**: the main cause in the inequality in wealth and income in India has been Zamindari System and inequality in the ownership of land. Prior to independence, Zamindari System was widely spread in India. As a result, there was a grave inequality in the ownership of land. In the post-independence era, although zamindari system was abolished, yet there is no material reduction in the inequality of the ownership of land. Inequality in the ownership of the land is the main cause of inequality of income in the rural areas. In rural area, income of the landless agricultural workers and small farmers is very low. They lead to miserable life. On the hand, big farmers have very large income and these incomes are ever growing. Big farmers have vast capital resources, so that they use capital-intensive inputs like chemicals fertilizers, high yielding varieties of seeds, tractors, tube wells, pesticides, etc. and get rich harvest. In this way, their income goes on multiplying. On the other hand, small farmers for want of capital fail to produce more their tiny holdings. They remain poor and backward. It is the inequality of ownership of land that increases inequality of income and wealth in rural sectors. In the urban areas some people own large properties. On the other hand, large population living in the urban area is poor. In this sector, capitalist by investing their capital in industries, trade, transport and other occupation earn handsome income. Middle and poor classes in urban areas faces great hardships to earn their livelihood.

2. **Law of inheritance:** Prevailing laws of inheritance in India have also contributed in perpetuating inequalities in the distribution of wealth and income. According to this law, on the death of a rich person his property is inherited by his offspring. As a result, the descendents of the rich are invariably rich from the very start of their life. On the contrary, on the death of a poor person his children inherit nothing but doubts. They can add something to their nothing but debts. They can add something to their meagre income only by dint of hard work. But they get very few opportunities for that also. Accordingly, laws of inheritance in India in India have rendered the distribution of wealth and income unequal on permanent basis.

3. **Inequalities in professional training:** Another important factors accounting for inequalities is the difference in professional training. Income in certain professions like, medical, engineering, company executive, law, etc. is relatively more than other professions. It is because of high cost involved in the initial training for these

professions. People of poor strata cannot afford it. Largely, persons from rich families opt for these professions and inequalities continue to persist.

4. **Inflation:** prices have been rising in India since1956. Rising prices hit hard the poor class. Their real income goes down. On the other hand, traders and industrialists gain because of inflation as value of their stock goes up. Inflation is thus responsible for aggravating inequalities of real income.

5. **Credit Policy of Financial institutions:** In the post independence era there has been expansion of banking and other specialized financial institutions like Industrial Development Bank of India, Industrial Finance Corporation, Industrial Credit and Investment Corporation, State Finance Corporations, Life Insurance Corporation, etc. These financial institutions have given financial assistance mostly rich capitalist. Poor class has got very little financial assistance from them. Accordingly, it is the capitalist class that has been able to expand its industry and business more. Wealth and income of this class have increased tremendously. On the other hand, poor class for want of adequate credit facilities has been unable to make any significant improvement in its economic conditions. Thus the existing credit policy of the financial institutions has also contributed to the inequalities of wealth and income.

6. **More Burden of Indirect Taxes:** Large number of taxes have been imposed in India after independence. The burden of indirect taxes like excise duty, sales tax, custom duty, value added tax, etc. has been quite heavy. The incidence of indirect taxes is much more on the poor than the rich. This burden reduces the real income of the poor. Increased burden of indirect taxes has thus widened the inequality of real income.

7. **Corruption and Smuggling:** Post-independence era has also witnessed large-scale corruption and smuggling activities in India. It has also aggravated inequalities of income. Those capable of giving bribe, succeed in procuring industrial licences, permits and quotas. Consequently, there is tremendous increase in the income of both the beneficiaries of these favours and the government officials who grant these favours. Those indulging in smuggling activities and their patrons acquire huge amounts of ill-gotten money. On the contrary, honest and law-abiding citizens have to remain content with small incomes. Corruption and Smuggling account for the generation of black money.

8. **Unemployment:** Unemployment and underemployment are important factors for inequality in India. In a state of unemployment, a man is deprived of all sources of income. In India, the number of unemployed has increased with every plan. There were about 33 lakh unemployed persons in 1951, their number increased to 3.88 crore in December 2010. Since most of the unemployed persons to the poor sections of the society, an increase in their number over time has resulted in inequality in income.

9. **Tax evasion and of the richer sections of the community:** Widespread tax evasion is responsible for inequalities in the distribution of wealth. Official responsible for the collection of taxes are not so efficient. Consequently, people succeed in evading the tax. They either do not pay any tax or pay much less than the actual tax due. Such unscrupulous people submit false accounts to the tax authorities and succeed in manipulating things in such a manner as to reduce their tax authorities and succeed in manipulating things in such a manner as to reduce their tax liability to minimum. Tax evasion leads to the create the increasing amount of black money in Indian economy has accentuated inequalities in the distribution of wealth and income in India.

8.9 Remedial Measures

In order to find out the remedial measures for inequality it is better to solve first the real causes of it in the country. Any how the following are the some of the measures to solve inequality.

1. **Land reforms**: Various land reforms have been introduced in the rural sector to reduce inequalities of wealth and income. The main objective of land reform policy is to bring down inequality in the ownership of land. To achieve this objective, different state governments had passed Zamindari Abolition Acts, Immediately after independence. Not only was Zamandari system abolished but the land in excess of the ceiling was also distributed among the farmers who used to cultivate it as tenants earlier. Laws relating to ceilings on landholdings were also passed. Land in excess of the ceiling is being or among the landless farmers. However, the progress of land reforms in India has been very slow.

2. **Extension of Public Sector**: Government has pursued a policy of rapid development of public sector. There are many objectives of the extension of this sector. One of them being reduction of inequalities of wealth and income. This is the main objective of the nationalisation of almost all big commercial banks. This has checked the concentration of wealth and income in the hands of private entrepreneurs and thereby helped to reduce inequalities in income and wealth. However, since 1991 under the new economic policy, there has been the reversal of government policy. The policy of privatization is being increasingly pursued. This is expected only to add to the problem of inequality.

3. **Encouragement to small-Scale and cottage Industries:** during the period of planning, a policy to promote the development of small scale and cottage industry has been adopted. With the promotion of these industries, it is hoped that concentration of wealth and income will be prevented. As a result of this policy there are more opportunities of employment in the industrial sector. Disguisedly unemployed in agriculture sector have got employment in these industries. Thus the income of the poor has increased. Consequently, economic inequalities have narrowed down.

4. **Control over Monopolies and Restrictive Trade Policies**: with the view to checking the concentration of wealth, government passed Monopolies and Restricitive Trade Practices (MRTP) Act in 1969. The main objective of this Act is to Prevent Concentration of economic power. Government has also adopted a policy of industrial licensing to meet this very objective. Through industrial licensing policy efforts are being made to reduce the concentration of economic power. But MRTP Act and Licensing Policy regulation Act were liberalised from time to time. In the year 20002, MRTP Act was repealed. All this has increased income and wealth inequalities. Now, in place of MRTP Act, Competition act 2002 has been enacted.

5. **Employment and Wage policies:** inequality of income of income can be reduced by providing employment to the unemployed persons. During Five-year plans emphasis has been laid on providing more and more employment opportunities. In this context many special programmes and projects have been introduced. In order to increase employment opportunities in the country Integrated Rural Development Programme (IRDP), National Scheme of Training for Rural Yoth for Self Employment (TRYSEM), Jawahar Rozgar Yozna have been launched to provide the employment to unemployed person. In 2005, government hs enacted Mahtama Ghandhi National Rural Employment Gurantee Act (MGNREGA). It provides at least 100 days of guaranteed employment at a minimum wage rates. From April 2009 this Act has been implemented in all 640 districts of the nation.

   Government has sought to reduce the income inequalities by enacting Minimum Wage Act, Bonus Act etc. However, the wage policy of the government has benefited labourers of the organised sector. Unorganised sector has remained deprived of these benefits out of these policies. Government has also introduced many social security measures such as Employees State Insurance Act, Provident Fund Act, Maternity Benefit Act, etc. to improve the economic conditions of the labourers.

6. **Pricing and Distribution Policies:** to reduce inequality of income pricing and distribution policies have also been introduced. These policies aim at helping the weaker section of the society. Government has adopted dual price policy in respect of many essential items like sugar, kerosene, wheat, rice, etc. As a result of this policy, persons get these goods at a cheaper rate. Arrangements have been made to make available essential goods to the poor people through the public distribution system. However this measure too has not succeeded in removing the inequalities of wealth and income.

7. **Fiscal Policy:** Fiscal Policy is the policy which is concerned with the management of the taxation system and public expenditure with the view of achieving definite objective. The government of India has so directed its fiscal policy as to achieve the objective of reduction in inequality of income and wealth. The main measures of India’s fiscal policy adopted to reduce inequalities of income and wealth are as follows;

(i) **Taxation Policy**: Policies of direct and indirect taxes aim at minimising inequality in income. The direct taxes like income tax, corporation tax, and capital gains tax have been levied at progressive rate on the rich class to appropriate a part of their incme in the form of tax proceeds. Death duties and wealth tax have been levied to reduce the inequalities of wealth. The poor are exempted from the payments of income tax. The indirect taxes on luxuries are levied at higher rate. The burdens of these taxes are borne by the rich section of the society. But the actual impact of taxation on reduction of inequalities is rather disappointing. Because of the tax evasion the impact of the direct taxes on the rich has been very light.

(ii) **Public Expenditure Policy:** the public expenditure policy of the government also aims at reducing the extent of inequalities of income. The money collected from the rich is used to increase income of the poor. In other words, the public expenditure redistributes income from the rich to the poor in the following way:

(a) **Social Security Benefits:** the government provides assistance to the poor against much insecurity and to raise their standard of living. These benefits are of several types like sickness benefits, maternity benefits, death relief, family pensions, and social security for handicapped and old persons.

(b) **Subsidies:** policy of granting subsidies has also been adopted in order to remove inequalities of income. With a view to improving the economic condition of poor and weaker section of society, government gives subsidies on electricity, irrigation and water supply, health facilities, housing at less than the cost price. But even this measure has not met with any success, so far as reduction in the inequalities of income is concerned.

8. **Measures to correct regional imbalances:** following measures have been taken to remove regional imbalances: (i) greater share out of central is made available to backward states by the Finance Commission. These states are given larger share of income and union excise duty. (ii) special Area Development Programme have been launched in backward states such as, Dry Farming Programme, Desert Development Programme, Drought Prone Area Programme, etc. (iii) for the efficient administration of the poor states, central government gives them financial assistance. (iv) Special facilities for industrial development in backward districts are allowed like tax- concession, subsidies, etc.

Exercise 8.1

1. List the main measures adopted by the government to reduce inequality in India?
2. What are the causes of income inequality in India?

8.10 Summary

High growth with inequality has a common phenomenon of developing countries. How to tackle this lopsided growth with inequality is the major challenge. The inequality is measured by different methods like range, range ratio, coefficient of variation, and most importantly Lorenz curve. In India high inequality is found both in the income and expenditure and also in other non-income variables like IMR, underweight of child, literacy rate etc. Even geographical inequality also exists.

The main causes of Inequality in India are Private ownership of means of production, Law of inheritance, Inequalities in professional training, Inflation, Credit Policy of Financial institutions, More Burden of Indirect Taxes, Corruption and Smuggling, Unemployment, and Tax evasion of the richer sections of the community.

8.11 Glossary

- **Range:** The range is simply the difference between the highest and lowest observation.
- **Range Ratio**: Range ratio is calculated by dividing the income/expenditure of predetermined highest and lowest percentile.
- **The coefficient of variation** (CV) is a distribution's standard deviation divided by its mean.
- **Lorenz Curve** is a graphical representation of the proportionality of a distribution. It represents a probability distribution of statistical values, and is often associated with income distribution calculations and commonly used in the analysis of inequality.

8.13 Suggested Readings

- Basu, K. (ed.), (2004), India's Emerging Economy, Oxford University Press, Delhi.
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LESSON 9
UNEMPLOYMENT

Structure

9.0 objectives

9.1 Introduction

9.2 Types of unemployment

9.3 Measurement of Unemployment in India

9.3.1 Usual Status Unemployment (US)

9.3.2. Current Weekly Status Unemployment (CWS)

9.3.3. Current Daily Status Unemployment (CDS)

9.4 Magnitude of Unemployment in India

9.5 Unemployment in India

9.5.1 Rural unemployment

9.5.2 Urban Unemployment

9.6 Causes of Unemployment

9.7 Employment in organized and unorganized sector in India

9.8 Steps taken by Government to Increase the Employment

9.9 Summary

9.11 Glossary

9.12 Suggested Readings

9.0 objectives

After going through this chapter, you will gain knowledge on:

- What is unemployment
- What are the different types of unemployment
- Magnitude of Unemployment in India.

9.1 Introduction

Another major developmental issue in Indian economy is unemployment. Although this problem had existed in the past; it has become more acute after the independence. The backwardness and increasing population are mainly responsible for this problem. The socioeconomic consequences of unemployment are very dangerous. It has economic consequences for the individual as well as the society.

Unemployment means idleness of man power. It is the state in which labour possesses necessary ability and health to perform a job, but does not get job opportunities. In other words unemployment is the situation in which individuals are available for work, but are not able to find a work.

In order to explain the concept unemployment it is better to distinguish between the concepts like labour force and work force. The labour force refers to the number of persons who are employed plus the number who are willing to be employed. In India the labour force excludes children below the age 15 and old people above the age 60 and mentally or physically handicapped. The work force includes those who are actually employed in economic activity. If we deduct work force from labour force we get the number of unemployment.

The unemployment rate means the number of persons unemployed per 1000 persons in the labour force.

The labour force participation rate and work force participation rate can be expressed in percentages and as given below.

$$\text{Labour Force Participation Rate} = \frac{\text{Labour Force}}{\text{Size of the population}}$$

$$\text{Work Force Participation Rate} = \frac{\text{Work Force}}{\text{Size of the population}}$$

9.2 Types of unemployment

In every economy there is unemployment but the nature and magnitude differ according to the economic progress. Following are the important types of unemployment.

1. **Voluntary unemployment :** This is the main type of unemployment referred by the Classical economists. Voluntary unemployment is happened when people are not ready to work at the prevailing wage rate even if work is available. It is a type of unemployment by choice.

2. **Involuntary Unemployment:** Keynes analysed this type of unemployment. It is a situation when people are ready to work at the prevailing wage rate but could not find job.

3. **Natural rate of Unemployment:** This is postulated by the Post-Keynesians. According to them in every economy there exists a particular percentage of unemployment.

4. **Structural unemployment:** This type of unemployment is not a temporary phenomenon. It is chronic and is the result of backwardness and low rate of economic development. The structural changes of an economy are the main reason for this type of unemployment.

5. **Disguised Unemployment :** When more people are engaged in a job than actually required, then it is called disguised unemployment. If a part of labour is

withdrawn and the total production remains unchanged because their marginal product is zero. This is a part of structural unemployment.

6. **Under Employment:** This exists when people are not fully employed i.e.; when people are partially employed. In other words it is a situation in which a person does not get the type of work he is capable of doing.

7. **Open Unemployment:** Mrs. Joan Robinson calls this type of unemployment as 'Marxian Unemployment'. Open unemployment is a situation where a large labour force does not get work opportunities that may yield regular income to them. It is just opposite to disguised unemployment. It exists when people are ready to work but are not working due to non-availability of work

8. **Seasonal unemployment:** Generally this type of unemployment is associated with agriculture because the unemployment rate is changed according to the season.

9. **Cyclical Unemployment:** It is generally witnessed in developed nations. This type of unemployment is due to business fluctuation and is known as cyclical unemployment.

10. **Technological Unemployment:** When the introduction of a new technology causes displacement of workers it is called technological unemployment.

11. **Frictional Unemployment:** It is a temporary unemployment which exists when people moved from one occupation to another. It will take time lag in transferring one work to another. The market imperfections are the main reason for this.

9.3 Measurement of Unemployment in India

The National Sample Survey Organization (NSSO), which provides estimates of the rates of unemployment in India on the basis of its quin quennial surveys, uses three different concepts. They are Usual Status Unemployment, Current Weekly Status unemployment and Current Daily Status unemployment.

9.3.1 Usual Status Unemployment (US)

Here the reference period is 365 days. The usual status gives an idea about long- term employment (or chronic and open employment) during the reference year. A person is considered unemployed on Usual Status basis, if he/she was not working, but was willing to work for the major part of the reference year (more than 183 days) but did not get work for even 183 days. Dividing the usual status unemployment by the size of the labour force, we get unemployment rate by usual status. This measure is more appropriate to those in search of regular employment (educated and skilled persons) who may not accept casual work.

9.3.2. Current Weekly Status Unemployment (CWS)

Here the reference period is one week .A person is considered unemployed by Current Weekly Status, if he/she had not worked even for one hour during the week, but was seeking or was available for work. The estimates are made in terms of the average number of persons unemployed per week. The Current Weekly Status approach gives an idea about temporary unemployment (or chronic plus temporary unemployment) during the reference week.

Current Weekly Status is used by the agencies like Inter National Organisations (ILO) to estimate employment and unemployment rates based on weekly reference period for international comparison. Dividing the weekly status unemployment by the size of the labour force, we get unemployment rate by weekly status.

9.3.3. Current Daily Status Unemployment (CDS)

Here the reference period is each of the 7 days, preceding the date of survey in each of these days. It records the activity status of a person for each day of the 7 days preceding the survey i.e. persons who did not find work on a day or some days during the survey week. The Current daily status approach gives a composite or comprehensive measure of unemployment, i.e., it is a measure of chronic and temporary unemployment as well as under employment. Dividing the current daily status unemployment by the size of the labour force, we get unemployment rate by usual status. The current daily status gives the most faithful picture of unemployment situation.

9.4 Magnitude of Unemployment in India

A comparison between different estimates of unemployment in 2009-10 indicates that the CDS estimate of unemployment is the highest (Table 9.1). The higher unemployment rates according to the CDS approach compared to the weekly status and usual status approaches indicate a high degree of intermittent unemployment. Interestingly, urban unemployment was higher under both the usual principal and subsidiary status (UPSS) and current weekly status (CWS) but rural unemployment was higher under the CDS approach.

This possibly indicates higher intermittent or seasonal unemployment in rural than urban areas, something that employment generation schemes like the MGNREGA need to pay attention to. However, overall unemployment rates were lower in 2009-10 under each approach vis-a-vis 2004-05.

Table 9.1

All-India NSS 66th Round Rural and Urban Unemployment Rates

Sr. No	Estimates	Rural (2009-10)	Urban (2009-10)	Total (2009-10)	Total (2004-05)
1	UPSS	1.6	3.4	2.0	2.3
2	CWS	3.3	4.2	3.6	4.4
3	CDS	6.8	5.8	6.6	8.2

Source: NSSO

Labour force participation rates (LFPR) under all three approaches declined in 2009-10 compared to 2004-05 (Table 9.2). However, the decline in female LFPRs was larger under each measure in comparison with male LFPRs which either declined marginally (UPSS), remained constant (CWS), or increased marginally (CDS).

Table 9.2

All-India Employment and Unemployment Indicators (per 1000)

Indicators	NSS 66th Round (2009-10)			NSS 61th Round (2004-05)		
	Male	**Female**	**Total Person**	**Male**	**Female**	**Total persons**
UPSS						
LFPR	557	233	400	559	294	430
Work Participation Rate	546	228	392	547	287	420
Unemployment Rate	20	23	20	22	26	23
CWS						
LFPR	550	207	384	550	257	407
Work Participation Rate	532	198	370	527	244	389
Unemployment Rate	33	43	36	42	50	44
CDS						
LFPR	540	179	365	538	215	381
Work Participation Rate	507	164	341	496	195	350
Unemployment Rate	61	82	66	78	92	82

Source: Key Indicators of Employment and Unemployment in India, 2009-10, NSSO.

9.5 Unemployment in India

India as a nation is faced with massive problem of unemployment. Unemployment can be defined as a state of work lessens for a man fit and willing to work. It is a condition of involuntary and not voluntary idleness. Some features of unemployment have been identified as follows:

1. The incidence of unemployment is much higher in urban areas than in rural areas.
2. Unemployment rates for women are higher than those for men.
3. The incidence of unemployment among the educated is much higher than the overall unemployment.
4. There is greater unemployment in agricultural sector than in industrial and other major sectors.
5. India is an under-developed though a developing economy. The nature of unemployment, therefore, sharply differs from the one that prevails in industrially advanced countries.

9.5.1 Rural unemployment

India is a country of villages as around three fourth of its population lives in rural areas. For rural workers, agriculture is virtually the sole occupation. However, agriculture is not able to provide gainful employment to all those who seek it. So there is unemployment in rural areas which takes three broad forms, viz,

i. Open and chronic unemployment,

ii. Seasonal unemployment, and

iii. Disguised unemployment.

(i) Open and Chronic Unemployment: In the agricultural sector we have a large group of landless labourers who seek wage employment on farms. There are also cultivators who seek additional income by working as labourers in their spare time. But due to heavy pressure of population on India's still underdeveloped agricultural sector, many people fail to get employment and hence remain chronically unemployed. Since they openly search for employment and hence their unemployment is not hidden, this is called open unemployment.

(ii) Seasonal Unemployment: Agriculture, which is the major economic activity in villages, is a seasonal phenomenon. There are seasons like sowing and harvesting of crops when all are busy and employment is high. But there are also slack seasons such as the period between sowing of crops and their harvesting when most people have nothing much to do and are thus unemployed. Many rural industries such as sugar mills, rice shellers, cotton ginning units, are based on processing of agricultural produce. So they too provide only seasonal employment. Hence the rural economy largely has seasonal employment alternated with periods of seasonal unemployment.

(iii) Disguised Unemployment: This is a type of unemployment which is not open in the sense that the persons do not feel that they are unemployed though technically they are unemployed. Employment has two aspects, viz, (a) quantitative, i.e., how many people are employed and (b) qualitative, i.e., how much the employed persons produce which means the productivity of employment. In India, as the population pressure on land increases, the productivity per persons declines. A situation has arisen where the marginal productivity of a large number of workers is zero, i.e., their work does not make any addition to production. Even if they are removed from agriculture, but whose productivity is zero, are called disguisedly unemployed. Mounting pressure of population in rural areas with no alternative employment available is the major cause of disguised unemployment.

9.5.2 Urban Unemployment

Urban areas suffer from large scale unemployment which comprises mainly of the following:

(i) Unemployment among the industrial workers,

(ii) Unemployment among urban educated people,

(iii) Technological unemployment, and

(iv) Unemployment among the youth, which is common in both urban and rural areas.

i. **Unemployment among the industrial workers:** The process of industrial development has not been fast enough to absorb all those who have added to the industrial labour force mostly as a result of migration from rural areas. The pattern of industrial expansion which is now largely based on sophisticated modern technology in labour saving in nature. Thus industrial output may expand at a rapid pace, but job opportunities do not increase. Therefore, most of the people who come to the urban industrial centres from rural areas in search of jobs fail to get employment thereby adding to unemployment among the industrial workers.

ii. **Unemployment among urban educated people:** Expansion of educational facilities in the urban areas, both at the school and the university levels, and growing consciousness about the social esteem that education brings with it the enrolment in educational institutions has increased rapidly. The universities are turning out lakhs of graduates each year who enter the job market. But the pattern of education is not job oriented. Hence education does not promote job worthiness of a person. Consequently many fail to find employment and add to the category of unemployed.

iii. **Technological Unemployment:** Technological changes are taking place rapidly in all spheres of activity. With the application of modern technology in industry, transport and other sectors, many people who have been working with old techniques become unfit for jobs and thus rendered unemployed. For example motorized transport rendered those engaged in manually driven hand crafts, tongas, etc., unemployed. Computerization of most activities has rendered surplus many workers who have no knowledge of this technology. This problem is being solved to some extent by retraining of technologically unemployed workers.

iv. **Unemployment Among the youth:** Among the various age groups of labour force, unemployment has the highest incidence among the youth aged between 15-35 years. This unemployment occurs both in the rural as well as urban areas. Unemployed youth can contribute a lot to national income if given jobs. They can also cause tremendous amount of social tension if they remain perpetually unemployed. Hence this problem needs to be given added attention.

9.6 Causes of Unemployment

The unemployment problem in India has assumed alarming dimensions since independence. Among the many factors that have contributed to this, some are discussed below:

1. **High Population growth:** The galloping increase in population of our country during the last decade has further aggravated the unemployment problem in the country. Due to rapidly increasing population of the country, a dangerous situation has arisen in which the magnitude of unemployment goes on increasing

during each plan period. While the rate of economic growth in India has been slow to moderate, the population growth rate has been very high. Thus, in spite of half a century of economic development, unemployment problem remains alarming.

2. **Insufficient Rate of Economic Progress:** Although India is a developing country, the rate of growth is inadequate to absorb the entire labour force in the country. The opportunities of employment are not sufficient to absorb the additions in the labour force of the country, which are taking place as result of the rapidly increasing population in India.

3. **Absence of employment opportunities in activities other than agriculture:** As enough other employment opportunities are not available, agriculture is the principal area of employment in our country. A major cause of rural unemployment is the extremely low rate of growth of agriculture. Thus, pressure on land is high, as about 2/3 of the labour force is engaged in agriculture. Land is thus overcrowded and a large part of the work force is underemployed and suffer from disguised unemployment.

4. **Joint Family System:** Existence of joint family system in India promotes disguised unemployment. Usually the members of a family work on their family farms or do family business. There are more workers on a family farm than what would be needed on them.

5. **Increasing turnout of students from Indian Universities:** During the last decade, educated unemployment has increased due to rapid turnout of graduates by the Indian universities. Moreover, in the Indian educational system, more emphasis is placed on engineering and other Technical subjects rather than on Arts subjects. But there is unemployment amongst technical graduates as well. There is a lack of proper vocational education in the country.

6. **Slow Developing of Industries:** Industrialization is not rapid in our country and industrial labour finds few job opportunities. The agricultural surplus labour force is not absorbed by the industrial sector. This leads to disguised unemployment in agriculture.

7. **Inappropriate technology:** An important cause of unemployment in the urban industrial sector is the use of inappropriate technology. Instead of using technology suited to our requirement of utilizing abundant labour supply available in the country, we have gone in for western modern highly capital intensive technology which minimizes use of labour. Clearly such technology is not appropriate for India as it creates more unemployment rather than absorbing more labour.

8. **Limited Land:** Land is the gift of nature. It is always constant and cannot expand like population growth. Since, India population increasing rapidly, therefore, the land is not sufficient for the growing population. As a result, there is heavy pressure on the land. In rural areas, most of the people depend directly on land for their livelihood. Land is very limited in comparison to population. It creates the unemployment situation for a large number of persons who depend on agriculture in rural areas.

9. **Seasonal Agriculture:** In Rural Society agriculture is the only means of employment. However, most of the rural people are engaged directly as well as indirectly in agricultural operation. But, agriculture in India is basically a seasonal affair. It provides employment facilities to the rural people only in a particular season of the year. For example, during the sowing and harvesting period, people are fully employed and the period between the post harvest and before the next sowing they remain unemployed. It has adversely affected their standard of living.

10. **Fragmentation of Land**: In India, due to the heavy pressure on land of large population results the fragmentation of land. It creates a great obstacle in the part of agriculture. As land is fragmented and agricultural work is being hindered the people who depend on agriculture remain unemployed. This has an adverse effect on the employment situation. It also leads to the poverty of villagers.

11. **Backward Method of Agriculture:** The method of agriculture in India is very backward. Till now, the rural farmers followed the old farming methods. As a result, the farmer cannot feed properly many people by the produce of his farm and he is unable to provide his children with proper education or to engage them in any profession. It leads to unemployment problem.

12. **Decline of Cottage Industries:** In rural India, village or cottage industries are the only mans of employment particularly of the landless people. They depend directly on various cottage industries for their livelihood. But, now-a-days, these are adversely affected by the industrialisation process. Actually, it is found that they cannot compete with modern factories in matter or production. As a result of which the village industries suffer a serious loss and gradually closing down. Owing to this, the people who work in there remain unemployed and unable to maintain their livelihood.

13. **Defective education:** The day-to-day education is very defective and is confirmed within the class room only. Its main aim is to acquire certificated only. The present educational system is not job oriented, it is degree oriented. It is defective on the ground that is more general then the vocational. Thus, the people who have getting general education are unable to do any work. They are to be called as good for nothing in the ground that they cannot have any job here,

they can find the ways of self employment. It leads to unemployment as well as underemployment.

14. **Lack of transport and communication:** In India particularly in rural areas, there are no adequate facilities of transport and communication. Owing to this, the village people who are not engaged in agricultural work are remained unemployed. It is because they are unable to start any business for their livelihood and they are confined only within the limited boundary of the village. It is noted that the modern means of transport and communication are the only way to trade and commerce. Since there is lack of transport and communication in rural areas, therefore, it leads to unemployment problem among the villagers.

15. **Inadequate Employment Planning:** The employment planning of the government is not adequate in comparison to population growth. In India near about two lakh people are added yearly to our existing population. But the employment opportunities did not increase according to the proportionate rate of population growth. As a consequence, a great difference is visible between the job opportunities and population growth. On the other hand it is a very difficult task on the part of the Government to provide adequate job facilities to all the people. Besides this, the government also does not take adequate step in this direction. The faulty employment planning of the Government expedites this problem to a great extent. As a result the problem of unemployment is increasing day by day.

As a result of massive unemployment there is poverty and increase in social evils like robbery, crime etc. The social consequences of the educated unemployed are quite serious. We will find that people with superior qualifications are doing jobs which could be done by less qualified people. This results in under-utilisation of one's capacity. We can find graduate engineers doing jobs which could be performed by diploma holders. Similarly there may be clerks and typists with postgraduate qualifications where perhaps matriculates could do the work. This is because people with lesser qualifications (matriculates) are unable to find jobs so they go for higher education with the hope that they will be in a better position to qualify for the same jobs. Many thieves, pickpockets, smugglers, drug traffickers etc. take up these activities because they are unable to find gainful employment. The frustrations of unemployed youth can also lead to terrorism. The highly educated unemployed have anger against society for their state of affairs. They feel that if this system cannot meet their aspirations for getting proper jobs it should be destroyed. This leads them to take to organised violence against the state. Terrorism in Assam and in many other parts of the country is largely a result of the large number of educated unemployed youth in these states, among other factors.

9.7 Employment in Organized and Unorganized Sectors in India

The organized sector usually refers to employment in the public sector and in private sector establishments employing 10 or more persons. It is commonly believed that wages in the organized sector are much higher than in the unorganized sector. Moreover, the organized sector being regulated also provides greater job security and other benefits. Within the organized sector, jobs in the public sector receive much higher wages and accompanying benefits than those in the private sector for similar skills. Besides this, public sector offers greater job security.

Employment in the organized sector has been hardly 8.34 per cent, of which the public sector accounts for 5.77 per cent and private sector only for 2.57 percent in the total employment generated during 1999-2000. In 2011 the public sector is playing a dominant role in employment 175.48 lakh of person are employed in public sector while that of in private sector the number was 114.51 lakhs.

As per NSSO survey, in the year 2009-10 the total employment in both organised and organised sector was 40.09 crores. Out of this 37.28 crores are employed in unorganised sector. In the unorganized sectors, 51 per cent workers are self employed. Majority of workers are engaged in agricultural sector, construction work, small-scale industries, petty trade etc.

9.8 Steps taken by Government to Increase the Employment

1. **Swarnjayanti Gram Swarojgar Yojana (SGSY) :** SGSY, a holistic self-employment generation programme, was launched from April 1,1999 by restructuring the earlier Integrated Rural Development Programme (IRDP) and allied programmes. The emphasis of SGSY is on a focused approach to poverty alleviation, capitalizing advantages of group lending and overcoming the problems associated with a multiplicity of programmes. SGSY is funded on the same sharing basis as IAY. Up to December 31, 2006, 24.38 lakh self- help groups (HSGs) have been formed and 73.25 lakh swarojgaries have been assisted with a total outiay of Rs. 16,443.66 crore.

2. **Sampoorn Grameen Rozgar Yojana (SGRY):** SGRY, launched on September 25,2001 to provide additional wage employment in the rural areas, has a cash and food grains component. The cash-component of SGRY is funded on the same sharing basis as IAY and SGSY, while food grains are provided free of cost to the states and Uts. In 2005-06, 82 18 Crore person-days of employment were generated with the centre releasing Rs. 5497.43 Crore as cash component and about 37.30 lakh tones of food grains to the States/UTs. Besides, under the special component of the SGRY, with the states /UTs meeting the cash components, Centre released 15.64 lakh tones of food grains to the 11 calamity affected states. In 2006-07 up to October 31, 2006 the number of person-days of employment generated under SGRY was 18.41 crore while the Centre’s contributions in terms of cash and food grains component up to December 31,2006 were Rs. 2,762 crore and 16.67 lakh tones, respectively. Under the special component, about 4.44 lakh tones of food grains have been released to calamity-hit states in the current year up to December 2006.

3. **Swarna Jayanti Shahari Rozgar Yojana (SJSRY):** In December 1997, the Urban self-Employment programme (USEP) and the Urban Wage Employment programme (UWEP) which are the two special components of the SJSRY,

substituted for various programmes operated earlier for urban poverty alleviation. The SJSRY is funded on the same sharing basis as IAY and SGSY. The number of urban poor assisted for setting up micro/group enterprises in 2005-06 was 0.98 lakh against a target of 0.8 lakh; while in the current year, against a target of 1.20 lakh 0.53 lakh was achieved by December 31, 2006. The number of urban poor imparted skill training in 2005-06 was 1.42 lakh against a target of 1 lakh. In the current year, against a target of 1.50 lakh, 072 lakh was achieved by December 31, 2006. Under UWEP, the man days of employment generated was 43.48 lakh in 2005-06 and 1.78 lakh in the current year till now. Coverage of beneficiaries under the community structure component was 337.4 lakh both in 2005-06 and the current year up to December 31,2006.

4. **Jawaharlal Nehru National Urban Renewal Mission (JNNURM):** JNNURM, which is for a seven year period from 2005-06 has two main components – Basic Services to the Urban Poor (BSUP) programme and Integrated Housing and Slum Development Programme (IHSDP) BSUP was launched to assist cities and towns in taking up housing and infrastructural facilities for the urban poor in 63 selected cities in the country. IHSDP was launched along with BSUP in December 2005 for taking up housing and slum up gradation programmes in non-BSUP cities. The allocation for JNNURM in 2006-07 (BE) is Rs. 4,900 crore.

5. **National Rural Employment Guarantee Scheme (NREGS) :** With the NREG Act being passed in September, 2005 the NREGS was implemented from February 2, 2006 in 200 identified districts of the country with the objective of providing 100 days of guaranteed unskilled wage employment to each rural household opting for it. The ongoing programmes of SGRY and National Food for Work Programme (NFFWP) have been subsumed under NREGS in these districts. NREGS will cover all districts of the country within five years . The NREGS, a demand-driven scheme, has its focus on works relating to water conservation, drought proofing (including a forestation/tree plantation), land development, flood-control/protection (including drainage in waterlogged areas) and rural connectivity in terms of all-weather roads. Of the Rs. 11,300 crore allocated for NREGS in 2006-07 (BE), Rs. 6,714.98 crore was released up to January 31, 2007. Till January 31, 3.47 crore job cards have been issued and of the 1.50 crore households who have demanded employment, 1.47 crore households have been provided employment. Under the scheme up to December 2006, of the 53.65 crore person- days of employment generated. 21.13 crore were for women, and of about 5.81 lakh works taken up, 2.34 lakh were completed.

6. **Micro Small and Medium Enterprises:** with the view to reducing unemployment, government has made special efforts to develop micro, small and medium enterprises. In 2010-11, as many as 732 lakhs persons were employed in these industries. Special incentives were given to these enterprises in 11th Five Year Plan.

7. **Development of organised sector:** many people are getting employed in organised public and private sectors, such as, industries, mining, transport, construction activities, etc. in 1961, organised public and private sector employed to 70 lakh persons; and in the year 2010-11, it provided employment to 2 crore and 90 lakh person.

8. **Employment exchanges:** government has set up about 969 employment exchanges offering information on the possible vocational avenues. These exchanges do not provide employment directly but are of great assistance in directing the job seekers to the possible areas of employment.

9. **Prime Minister Rozgar Yojna:** this Yojna was launched in 1993 to provide employment to educated youth by setting up micro enterprises. In 2008-09 this Yojna was renamed as Prime Minister Employment Generation programme. In 2009-10, 420 lakh employment opportunities were generated under this programme.

10. **Setting up Rural Self Employment Training Institute:** for improving basic skills to undertake self employment by setting up micro enterprises, government has set up "Rural Self Employment Training Institute" in each district of the nation. The institute provides skill development training to rural youth.

9.9 Summary

Another major developmental issue in Indian economy is unemployment. Although this problem had existed in the past; it has become more acute after the independence. The backwardness and increasing population are mainly responsible for this problem. The socioeconomic consequences of unemployment are very dangerous. It has economic consequences for the individual as well as the society. Unemployment means idleness of man power. In order to explain the concept unemployment it is better to distinguish between the concepts like labour force and work force. The different types of unemployment exist in India.

Exercise 9.10

Q1 What do you mean by unemployment? What are the different types of Unemployment?

Q2 How unemployment is measured?

9.11 Glossary

- **Voluntary unemployment** is happened when people are not ready to work at the prevailing wage rate even if work is available. It is a type of unemployment by choice

- **Involuntary Unemployment:** Keynes analysed this type of unemployment. It is a situation when people are ready to work at the prevailing wage rate but could not find job.
- **Structural Unemployment**: This type of unemployment is not a temporary phenomenon. It is chronic and is the result of backwardness and low rate of economic development. The structural changes of an economy are the main reason for this type of unemployment.
- **Disguised Unemployment:** When more people are engaged in a job than actually required, then it is called disguised unemployment. Open unemployment is a situation where a large labour force does not get work opportunities that may yield regular income to them. It is just opposite to disguised unemployment. It exists when people are ready to work but are not working due to non-availability of work
- **Technological Unemployment:** When the introduction of a new technology causes displacement of workers it is called technological unemployment.

9.12 Suggested Readings

- Dhingra, I.C. (2012): Indian Economy, Sultan Chand and Sons. New Delhi.
- Annual Report to the People on Employment (2010), Government of India, Ministry of Labour and Employment.
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LESSON 10

FOOD SECURITY

Structure

10.0 Objective

10.1 Introduction

10.1.1 Meaning of Food security

10.2 The four pillars of food security

10.3 Public Distribution System and Food Security

10.4 Minimum Support Prices and Procurement Price

10.5 Targeted Public Distribution System (TPDS)

10.6 National Food Security Mission

10.7 National Food Security Act, 2013

10.8 The initiative by the government of India-

10.11 Direct cash transfer scheme of Government

10.12 Summery

10.13 Exercise

10.14 Glossary

10.15 Suggested Readings

10.1 Introduction

From the chronic shortage of food- grain and virtually "ship- to- mouth" existence in the mid 1960, India has made considerable strides towards achieving food security. Food security entails ensuring adequate food supply to people, especially those who are deprived of basic nutrition. Food security has been a major concern in India. According to UN-India, there are nearly 195 million undernourished people in India, which is a quarter of the world's hunger burden. Also roughly 43% children in India are chronically undernourished. India ranks 74 out of 113 major countries in terms of food security index. In order to provide the Right to food to every citizen of the country, the Parliament of India enacted a legislation in 2013 known as the National Food Security Act, 2013 Also called as the Right to Food Act, this Act seeks to provide subsidized food grains to approximately two thirds of India's 1.2 billion population. It was signed into law on 12 September 2013, retroactive to 5 July 2013. National Food Security Act, 2013 (NFSA 2013) converts into legal entitlements for existing food security programmes of the Government of India. It includes the Midday Meal Scheme Integrated Child Development Services scheme and the Public Distribution System. In 2017-18, over Rs 1500 billion (7.6% of the government's total expenditure) have been allocated to provide food subsidies under the Targeted Public Distribution System (TPDS). The NFSA 2013 also recognizes maternity entitlements.

Pregnant women, lactating mothers, and certain categories of children are eligible for daily free cereals.

10.1.1 Meaning of Food security

Food security is a condition related to the supply of food, and individuals' access to it. The final report of the 1996 World Food Summit states that food security "exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life".

Definition

1) The 1996 World Food Summit adopted a still more complex definition:

   "Food security, at the individual, household, national, regional and global levels [is achieved] when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preference for an active and healthy life".

2) This definition is again refined in The State of Food Insecurity 2001:

   "Food security [is] a situation that exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life"

10.2 The Four Pillars of Food Security

1. **Availability:** Food availability relates to the supply of food to production, distribution, and exchange. A variety of factors determine Food production such as land ownership and use; soil management; crop selection, breeding, and management; livestock breeding and management; and harvesting. Crop production is not required for a country to achieve food security.
2. **Access**: Food access refers to the affordability and allocation of food, as well as the preferences of individuals and households. Poverty can limit access to food, and can also increase how vulnerable an individual or household is to food price spikes. Access depends on whether the household has enough income to purchase food at prevailing prices or has sufficient land and other resources to grow its own food. Households with enough resources can overcome unstable harvests and local food shortages and maintain their access to food.
3. **Utilization:** Once the food is obtained by a household, a variety of factors affects the quantity and quality of food that reaches members of the household. In order to achieve food security, the food ingested must be safeand must be enough to meet the physiological requirements of every individual. Food safety affects food utilization and can be affected by the preparation, processing, and cooking of food in the community and household. Nutritional values of the household determine food choice, and whether the food meets cultural preferences is important to utilization in terms of psychological and social well-being.

4. **Stability**: Food stability refers to the ability to obtain food over time. Food insecurity can be transitory, seasonal, or chronic. In transitory food insecurity, food may be unavailable during certain periods of time such as during natural disasters, civil conflicts and droughts. Seasonal food insecurity can result from the regular pattern of growing seasons in food production. Chronic (or permanent) food insecurity is defined as the long-term, persistent lack of adequate food. Chronic and transitory food insecurity are linked since the re-occurrence of transitory food security can make households more vulnerable to chronic food insecurity

The last major famine in India was the Bengal famine of 1943. A famine occurred in the state of Bihar in December 1966 on a much smaller scale. The drought of Maharashtra in 1970–1973 is often cited as an example in which successful famine prevention processes were employed. Famines in British India were severe enough to have a substantial impact on the long-term population growth of the country in the 19th and early 20th centuries.

10.3 Public Distribution System and Food Security

The Public Distribution System (PDS) evolved as a system for distribution of food grains at affordable prices and management of emergency situations. Over the years, the term PDS has become synonymous with the term 'food security' and also an important part of Government's policy for management of food economy in the country.

Food grain Management "A large public distribution system, supplemented by arrangements for moderating prices in the open market and concerted efforts for achieving self - sufficiency in food grains, coupled with measures for maximising procurement from surplus areas, have been the twin objectives of food policy in modern India, 8 ever since the Bengal famine of 1943. These objectives have held sway over the last 55 years, though with changes in emphasis and varying degrees of rigidity, from total control to total decontrol, depending upon the prevailing situation and assessment at each point of time". Currently, the food security system and price policy, basically consist of three instruments: procurement prices/minimum support prices, buffer stocks, and the public distribution system (PDS).

Objectives of PDS

i) Providing food grains and other essential items to vulnerable sections of the society at reasonable (subsidised) prices;

ii) to have a moderating influence on the open market prices of cereals, the distribution of which constitutes a fairly big share of the total marketable surplus; and

iii) to attempt socialisation in the matter of distribution of essential commodities.

The PDS seeks to provide to the beneficiaries two cereals, rice and wheat and four essential commodities viz. sugar, edible oil, soft coke and kerosene oil. However, state governments, which actually manage the system at the ground level, are exhorted to add other essential commodities like pulses, salt, candles, matchboxes, ordinary clothes, school text books/copies and the like. Supply of additional items through PDS is especially relevant in interior areas, which are away from markets and where one or two traditional shopkeepers, who also double up for money-lenders, have the market monopoly. A number of state governments have set up Civil Supplies or Essential Commodities Corporations to buy such additional items directly from the manufacturers and use the existing structure of PDS to arrange for the sale at lower than market rates.

10.4 Minimum Support Prices and Procurement Price

Policy for agricultural commodities seeks to ensure remunerative prices to growers for their produce with a view to encouraging higher investment and production, and at the same time, safeguarding the interest of consumers by making available supplies at reasonable prices. A lot of publicity is still needed with regard to minimum support prices (MSP) as only 19 per cent of the farmers knew about MSP, while another 10 per cent knew about it but did not know where to sell their produce (NSSO 59th Round 2003). The minimum support prices (MSP) for major agricultural products announced each year are fixed taking into account the recommendations of the Commission for Agricultural Costs and Prices (CACP). The CACP recommends MSPs for 24 important crops. There has been significant increase in MSP during the period 2004-05 to 2009- 10 as compared to the period 2000-01 to 2004-05. For example, MSP for paddy (common variety) increased by 69.6 per cent during 2004-05 to 2009-10 as compared to a 9.8 per cent rise during 2000-01 to 2004-05. Similarly, MSP for wheat increased by 71 per cent in the second half of this decade as compared to 8.6 per cent in the first half. The MSPs for the years 2008-09 and 2009-10, especially, are a clear departure from earlier years, in order to achieve the broad objectives of building buffer stocks of foodgrains to meet the situation of scarcity arising out of crop failures and of encouraging farmers to grow more for food security concerns. They had similar objectives earlier as well, but, there was a concern in recent years because of the slowdown in foodgrain yields and lower procurement prices, particularly in 2006-07. India had to import 5 million tonnes of wheat during this year.

10.5 Targeted Public Distribution System (TPDS)

PDS and nutrition programmes can help in improving food security of households and nutrition. TPDS The Public Distribution System (PDS) is one of the instruments for improving food security at the household level in India. The PDS ensures availability of essential commodities like rice, wheat, edible oils, and kerosene to the consumers through a network of outlets or fair price shops. These commodities are supplied at below market prices to consumers. With a network of more than 28 462,000 fair price shops (FPS) distributing commodities worth more than Rs. 300 billion annually to about 160 million families, the PDS in India is perhaps the largest distribution network of its kind in the world. The PDS evolved as an important instrument of government policy for management of scarcity and for distribution of food grains at affordable prices. Supplemental in nature, the scheme is not intended to make available the entire requirements of foodgrains of the households. The Targeted PDS (TPDS) was introduced in 1997 and under this scheme special cards were issued to families below poverty line (BPL) and food grains were distributed at a lower price for these families compared to those above the poverty line (known as APL families). The entire population was divided into three categories – BPL (Below Poverty Line), APL (Above Poverty Line) and AAY – Antyodaya Anna Yojana (destitute). The BPL population are provided 35 kg of food grains per month at subsidized price . AAY, the destitute households (part of BPL households) are provided a monthly provision of 35 kg of food grains at specially subsidized rates (Rs. 2 per kg for wheat and Rs. 3 for rice). About 25 million (38 per cent of BPL) people have been covered under AAY. The central government allocates food grains to different states of India based on poverty ratios. According to the central government there are around 65 million poor households in the country. States in turn distribute foodgrains based on the BPL list. Targeting is done by states based on 13 non-income indicators to select BPL population. If we add together the households on the states' BPL lists, there are 100 million poor households. There is competitive populism to include more households in the BPL list.

10.6 National Food Security Mission

The National Development Council (NDC) in its 53rd meeting held on 29th May, 2007 adopted a resolution to launch a Food Security Mission comprising rice, wheat and pulses to increase the annual production of rice by 10 million tonnes, wheat by 8 million tonnes and pulses by 2 million tonnes by the end of the Eleventh Plan (2011-12). Accordingly, a Centrally Sponsored Scheme, 'National Food Security Mission' (NFSM), was launched in October 2007.

The Mission met with an overwhelming success and achieved the targeted additional production of rice, wheat and pulses. The Mission continued during 12th Five Year Plan with new targets of additional production of food grains of 25 million tonnes of food grains comprising of 10 million tonnes rice, 8 million tonnes of wheat, 4 million tonnes of pulses and 3 million tonnes of coarse cereals by the end of 12th Five Year Plan. 348967 total beneficiary by National food security mission in the year 2017 -18.

10.7 National Food Security Act, 2013

The National Food Security Act, 2013 (also Right to Food Act) is an Act of the Parliament of India which aims to provide Subsidized food grains to approximately two thirds of India's 1.2 billion people. It was signed into law on 12 September 2013, Retroactive to 5 July 2013.

The National Food Security Act, 2013 (NFSA 2013) converts into legal entitlements for existing food security programmes of the Government of India. It includes the Midday Meal Scheme, Integrated Child Development Services scheme and the Public Distribution Schemes. Further, the NFSA 2013 recognizes maternity entitlements. The Midday Meal Scheme and the Integrated Child Development Services Scheme are universal in nature whereas the PDS will reach about two-thirds of the population (75% in rural areas and 50% in urban areas).

Under the provisions of the bill, beneficiaries of the Public Distribution Schemes (or, PDS) are entitled to 5 kilograms (11 lb) per person per month of cereals at the following prices:

- Rice at ₹3 (4.4¢ US) per kg

- Wheat at ₹2 (2.9¢ US) per kg
- Coarse grains (millet) at ₹1 (1.5¢ US) per kg.

Pregnant women, lactating mothers, and certain categories of children are eligible for daily free cereals.

The bill has been highly controversial. It was introduced into India's parliament on 22 December 2011, promulgated as a presidential ordinance on 5 July 2013, and enacted into law on 12 September 2013. Odessa government implemented food security bill in 14 district from 17 November 2015. Assam government implemented Act on 24 December 2015.

Features of NFSA

1) **Coverage and entitlement under Targeted Public Distribution System (TPDS) :** Up to 75% of the rural population and 50% of the urban population will be covered under TPDS, with uniform entitlement of 5 kg per person per month. However, since Antyodaya Anna Yojana (AAY) households constitute poorest of the poor, and are presently entitled to 35 kg per household per month, entitlement of existing AAY households will be protected at 35 kg per household per month. State-wise coverage : Corresponding to the all India coverage of 75% and 50% in the rural and urban areas, State-wise coverage will be determined by the Central Government. Planning Commission has determined the State-wise coverage by using the NSS Household Consumption Survey data for 2011-12.

2) Subsidised prices under TPDS and their revision : Foodgrains under TPDS will be made available at subsidised prices of Rs. 3/2/1 per kg for rice, wheat and coarse grains for a period of three years from the date of commencement of the Act. Thereafter prices will be suitably linked to Minimum Support Price (MSP). In case, any State's allocation under the Act is lower than their current allocation, it will be protected up to the level of average offtake under normal TPDS during last three years, at prices to be determined by the Central Government. Existing prices for APL households i.e. Rs. 6.10 per kg for wheat and Rs 8.30 per kg for rice has been determined as issue prices for the additional allocation to protect the average offtake during last three years.

3) Identification of Households : Within the coverage under TPDS determined for each State, the work of identification of eligible households is to be done by States/UTs.

4) Nutritional Support to Women and Children : Pregnant women and lactating mothers and children in the age group of 6 months to 14 years will be entitled to meals as per prescribed nutritional norms under Integrated Child Development Services (ICDS) and Mid-Day Meal (MDM) schemes. Higher nutritional norms have been prescribed for malnourished children up to 6 years of age.

5) Maternity Benefit : Pregnant women and lactating mothers will also be entitled to receive maternity benefit of not less than Rs. 6,000.

6) Women Empowerment : Eldest woman of the household of age 18 years or above to be the head of the household for the purpose of issuing of ration cards.

10.8 The initiative by the Government of India

Food Corporation of India was set up on 14 January 1965 under the Food Corporations Act 1964 to implement the following objectives of the National Food Policy:-

-Effective price support operations for safeguarding the interests of the farmers

-Distribution of food grains throughout the country for Public Distribution System

-Maintaining satisfactory level of operational and buffer stocks of food grains to ensure National Food Security

-Regulate market price to provide food grains to consumers at a reliable price

The **National Food for Work Programme** was launched by the Ministry of Rural Development on 14 November 2004 in 150 of the most backward districts of India with the objective of generating supplementary wage employment. The programme is open to all Indian poor population who are prepared to do manual unskilled labour work and are in the need of wage employment.

Integrated Child Development Services (ICDS) is an Indian government welfare programme which provides food, preschool education, and primary healthcare to children under 6 years of age and their mothers. These services are provided from Anganwadi centres established mainly in rural areas and staffed with frontline workers. In addition to fighting malnutrition and ill health, the programme is also intended to combat gender inequality by providing girls the same resources as boys.

Public Distribution System (PDS) is an Indian food security system. Established by the Government of India under Ministry of Consumer Affairs, Food, and Public Distribution and are managed jointly by state governments in India, it distributes subsidized food and non-food items to India's poor. This scheme was launched in India on June 1947. Major commodities distributed include staple food grains, such as wheat, rice, sugar, and kerosene, through a network of fair price shops (also known as ration shops) established in several states across the country. Food Corporation of India, a Government-owned corporation, procures and maintains the PDS.

The **National Food Security Act**, 2013 (also Right to Food Act) is an Act of the Parliament of India which aims to provide subsidised food grains to approximately two-thirds of India's 1.2 billion people. It was signed into law on 12 September 2013, retroactive to 5 July 2013. The NFSA converts into legal entitlements for existing food security programmes of the Government of India. It includes the Midday Meal Scheme, Integrated Child Development Services scheme and the Public Distribution System. Further, the NFSA 2013 recognises maternity entitlements. The Midday Meal Scheme and the Integrated Child Development Services Scheme are universal in nature whereas the PDS will reach about two-thirds of the population (75% in rural areas and 50% in urban areas).

Antyodaya Anna Yojana (AAY) is a Government of India sponsored scheme to provide highly subsidised food to millions of the poorest families. It was launched by the [NDA] government on 25 December 2000 and first implemented in the Indian state of Rajasthan. Poor families were identified by their respective state rural development facilities through the use of surveys(NSSO). The scheme has been expanded twice, once in June 2003 and then in August 2004, adding an additional 5,000,000 BPL(Below Poverty Line) families each time and bringing the total number of families covered up to 20,000,000.

Minimum Support Price is the price at which government purchases crops from the farmers, whatever may be the price for the crops. Minimum Support Price is an important part of India's agricultural price policy. The MSP helps to incentivize the framers and thus ensures adequate food grains production in the country. It gives sufficient remuneration to the farmers, provides food grains supply to buffer stocks and supports the food security programme through PDS and other programmes.

10.11 Direct cash transfer scheme of Government -

In a landmark step, Prime Minister Manmohan Singh announced the much-awaited direct cash transfer scheme wherein the subsidy amount will go directly into the bank accounts of the beneficiaries. The government will implement the scheme for cash transfer to the beneficiary's account in 51 districts from January 1, 2013. Electronic Benefit Transfer (EBT) has already begun on a pilot basis in Andhra Pradesh, Chhattisgarh, Punjab, Rajasthan, Tamil Nadu, West Bengal, Karnataka, Pondicherry and Sikkim. The government claims the results are encouraging.

Its benefits:

It is a poverty reduction measure in which government subsidies and other benefits are given directly to the poor in cash rather than in the form of subsidies. It can help the government reach out to identified beneficiaries and can plug leakages. Currently, ration shop owners divert subsidised PDS grains or kerosene to open market and make fast buck. Such Leakages could stop. The scheme will also enhance efficiency of welfare schemes.

The money is directly transferred into bank accounts of beneficiaries. LPG and kerosene subsidies, pension payments, scholarships and employment guarantee scheme payments as well as benefits under other government welfare programmes will be made directly to beneficiaries. The money can then be used to buy services from the market. For eg. if subsidy on LPG or kerosene is abolished and the government still wants to give the subsidy to the poor, the subsidy portion will be transferred as cash into the banks of the intended beneficiaries.

Disadvantages

1) It is feared that the money may not be used for the intended purpose and men may squander it.

2) Only Aadhar card holders will get cash transfer. As of today, only 21 crore of the 120 crore people have Aadhar cards. Two other drawbacks are that most BPL families don't have bank accounts and several villages don't have any bank branches. These factors can limit the reach of cash transfer.

10.12 Summery

India, after independence, experienced many remarkable achievements. For example, the introduction of 'green revolution**'** increased the agricultural produce many folds. But the substantial increase in the production of grains (especially rice and wheat) is not equal across the country. The states Punjab and Uttar Pradesh achieved high growth rate; on the contrary, Jharkhand, Assam, Tamil Nadu, Uttarakhand, recorded decrease in their food grain production **.** In spite of all the disparities (discussed above), over the last few decades, India is self-sufficient in the production of food grains. To mitigate adverse conditions, the Indian government has come up with initiatives such as special food security system (maintaining buffer reserves of food stock) and public distribution system. During 1950-51 annual net imports of cereals amounted to 4.1 million tonnes**.** This figure was 10.3 million tons during 1965-66**.** Since then there was a decline and after 1995-96 India became an exporter of cereals. During the last 50 years, there has been an increase in the per capita availability of cereals to the extent of **9%**. However, the country has failed to increase the production of pulses consistent with the needs of the growing population. This is significant since a large number of vegetarians in the country depend on pulses for their protein requirements. Tenth Plan data indicate that consumption of milk and meat products, as well as vegetables and fruits, has increased as a natural outcome of economic development. The United Nations In India supports various anti-poverty programmes like Mahatma Gandhi National Rural Employment Guarantee Act and the National Rural Livelihoods Mission. ensure that the program reaches every citizen of the country and no one, especially the socially backward communities do not miss out on the profits. It assists government efforts to increase the efficiency and effectiveness of the safety nets under the NFSA, and work towards increasing farm incomes for small and marginal farming households. In previous years, the group has collaborated with the Ministry of Health and Family Welfare to hold a national consultation on wheat flour fortification, and with the Food Safety and Standards Authority of India to organise a workshop on advocating for a national food fortification policy.

10.13 Exercise

Q1 What do you understand by the food security in india?

Q2 Explains the Public distribution system in India ?

Q3 What do You mean by National Food Security Act ?

Q4 What is cash transfer scheme of government?

10.14 Glossary

- **Minimum Support Price** is the price at which government purchases crops from the farmers, whatever may be the price for the crops. Minimum Support Price is an important part of India's agricultural price policy. The MSP helps to incentivize the framers and thus ensures adequate food grains production in the country. It gives sufficient remuneration to the farmers, provides food grains supply to buffer stocks and supports the food security programme through PDS and other programmes.
- **Public Distribution System** (PDS) is an Indian food security system. Established by the Government of India under Ministry of Consumer Affairs, Food, and Public Distribution and are managed jointly by state governments in India, it distributes subsidized food and non-food items to India's poor. This scheme was launched in India on June 1947. Major commodities distributed include staple food grains, such as wheat, rice, sugar, and kerosene, through a network of fair price shops (also known as ration shops) established in several states across the country. Food Corporation of India, a Government-owned corporation, procures and maintains the PDS

10.15 Suggested Readings

- Uma, Kalpa (2008),'Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.
- Prakesh, B.A.(2009),' Indian Economy Since 1991: Economic Reforms And Performance. Sage Publication New Delhi.
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LESSON 11

AGRICULTURE -1

Structure

11.0 Objective

11.1 Introduction

11.2 Agricultural Policy: A Review

11.3 Changing Agrarian Economy since Independence

11.4 Factors influencing Agriculture development

11.5 Exercise

11.6 Suggested Readings

11.0 Objective

- Know about the agriculture policy
- understand about the factors influencing Agriculture development

11.1 Introduction

Agriculture plays an essential role in the process of economic development of less developed countries like India. Besides providing food to nation, agriculture releases labour, provides saving, contributes to market of industrial goods and earns foreign exchange. Agricultural development is an integral part of overall economic development. In India, agriculture was the main source of national income and occupation at the time of Independence. Agriculture and allied activities contributed nearly 50 percent to India's national income. Around 72 percent of total working population was engaged in agriculture. These confirm that Indian economy was a backward and agricultural based economy at the time of Independence. After 61 year of Independence, the share of agriculture in total national income declined from 50 percent in 1950 to 14 percent in 2017- 18. But even today more than 60 percent of workforce is engaged in agriculture. In spite of this, it is also an important feature of agriculture that is to be noted that growth of other sectors and overall economy depends on the performance of agriculture to a considerable extent. Because of these reasons agriculture continues to be the dominant sector in Indian Economy. Since independence India has made much progress in agriculture. Indian agriculture, which grew at the rate of about 1 percent per annum during the fifty years before Independence, has grown at the rate of about 2.6 percent per annum in the post-Independence era. Expansion of area was the main source of growth in the period of fifties and sixties after that the contribution of increased land area under agricultural production has declined over time and increase in productivity became the main source of growth in agricultural production. Another important facet of progress in agriculture is its success in eradicating of its dependence on imported foodgrains. Indian agriculture has progressed not only in output and yield terms but the structural changes have also contributed. All these developments in Indian agriculture are contributed by a series of steps initiated by

Indian Government. Land reforms, inauguration of Agricultural Price Commission with objective to ensure remunerative prices to producers, new agricultural strategy1 , investment in research and extension services, provision of credit facilities, and improving rural infrastructure are some of these steps.

Notwithstanding these progresses, the situation of agriculture turned adverse during post WTO period and this covered all the sub sectors of agriculture. The growth rates in output of all crops decelerated from 2.93 percent to 1.57 percent. The livestock declined from 4.21 percent to 3.40 percent. The fisheries declined from 7.48 percent to 3.25 percent. Only, forestry witnessed a sharp increase from 0.09 percent to 1.82 percent.

In order to achieve the goal of self sufficiency in agriculture, new agricultural strategy has been initiated in 1966-67. The fundamental of this strategy is the application of science and technology for increasing yield per hectare. This strategy, known as New Agricultural Strategy or Green Revolution, is based on the extension of high yielding varieties responsive to heavy doses of fertilizers and the package of improved practices in selected areas with assured rainfall or irrigation facilities. The programmes included under the new strategy are: (1) the high yielding varieties programme, (2) multiple cropping programme, (3) integrated development of dry areas, (4) plant protection measures, (5) increased use of fertilizers, and (6) new irrigation concept

The crop sector, which forms largest segment of agriculture, showed poorest growth during post-WTO period in comparison to all other periods. Further, within crop sector, all crops except sugar showed declining trend between initial years of reforms and post-WTO period. This deceleration is very high in Cereals, Corse Cereals, Pulses, Oilseeds, and Drugs & Narcotics. The growth rate turned negative in the case of pulses.

11.2 Agricultural Policy: A Review

we try to trace out the principle government policies for promoting agricultural development. For the overall development of Indian agriculture, many institutional and infrastructural changes have been introduced since Independence. Broadly, agricultural policy followed during this period can be distinguished in four phases: first phase considered from 1947 to mid sixties, second phase considered period from mid-sixties to 1980, third phase included period from 1980 to 1991, and forth phase includes period from 1991/92 onwards. The first phase of agricultural policy witnessed tremendous agrarian reforms, institutional changes, development of major irrigation project and strengthens of cooperative credit institution. The most important contribution of land reforms was abolition of intermediaries and giving land titles to the actual cultivators. This released productive forces and the owner cultivators put in their best to augment production on their holdings. Land reforms were important in increasing agricultural production during this phase. The Community Development Programme, decentralised planning and the Intensive Area Development Programmes were also initiated for regenerating Indian agriculture that had stagnated during the British period. In order to encourage the farmers to adopt better technology, incentive price policy was adopted in 1964 and the Agricultural Price Commission was set up to advice the Government on the fixation of support prices of agricultural crops. Despite the institutional changes and development programmes introduced by the Government during this phase, India remained dependent upon foreign countries for food to feed the rising population.

The second phase in Indian agriculture started in mid 1960s with adoption of new agricultural strategy3 . The new agricultural strategy relies on high-yielding varieties of crops, multiple cropping, the package approach, modern farm practices and spread of irrigation facilities. The biggest achievement of this strategy has been attainment of self sufficiency in foodgrains. Agrarian reforms during this period took back seat while research, extension, input supply, credit, marketing, price support and spread of technology were the prime concern of policy makers . The next phase in Indian agriculture began in early 1980s. This period started witnessing process of diversification which resulted into fast growth in non-foodgrains output like milk, fishery, poultry, vegetables, fruits etc which accelerated growth in agricultural GDP during the 1980s . There has been a considerable increase in subsidies and support to agriculture sector during this period while public sector spending in agriculture for infrastructure development started showing decline in real term but investment by farmers kept on moving on a rising trend. The fourth phase of agricultural policy started after initiation of economic reform process in 1991. Economic reforms process involved deregulation, reduced government participation in economic activities, and liberalization. Although there is no any direct reforms for agriculture but the sector was affected indirectly by devaluation of exchange rate, liberalization of external trade and disprotection to industry. During this period opening up of domestic market due to new international trade accord and WTO was another change that affected agriculture. This raised new challenges among policymakers. Because of this, a New Agricultural Policy was launched by Indian Government in July 2000. This aims to attain output growth rate of 4 percent per annum in agriculture sector based on efficient use of resources. It seeks to achieve this objective in a sustainable manner and with equity. This was first time when government released a national agriculture policy. The policy document discusses what ought to be done in agriculture but the subsequent step, how and when policy goals and objective would be achieved is not discussed (Chand, 2003). Therefore, it is highly desirable to prepare action plans at both centre and state level in quantity terms to implement the new policy agenda in a time bound framework.

11.3 Changing Agrarian Economy Since Independence

In this we focused on how agrarian economy has changed since Independence. Land Use Pattern The basic factor in agriculture is land. A knowledge about land use pattern is vital to understand whether the utilization of land in India is at its full potential or far from its full potential. In India the classification of land has had its roots in agricultural statistics. Till 1950, the land in India was broadly classified into five categories: (i) Area under forests; (ii) Area not available for cultivation; (iii) Uncultivated lands including current fallows; (iv) Area under current fallows; and (v) Net area sown. But then it was realized that such a classification did not give a clear picture of the actual area under different categories of land use required for agricultural planning. Hence, a reclassification was adopted from March 1950. Under it, land in India now classified under nine different categories. These are as: (i) forests; (ii) barren and uncultivable lands; (iii) land put to non-agricultural uses; (iv) cultivable wastes; (v) permanent pastures and other grazing lands; (vi) miscellaneous tree crops and groves not included in the net area sown; (vii) current fallows; (viii) other fallows; and (ix) net sown area. Table 1 shows changes in land use pattern in India since 1950/51.The total geographical area of the country is 328726 thousand hectares in which 93 percent area is reporting area which means that the area for which record is available. It was 88 percent in 1950/51. The net sown area has risen by 18.44 percent from 1950/51 to 2000/01. The net sown area is only 46 percent of total reporting area that was 41 percent of total reporting area in 1950/51. The area under non agricultural use has increased from 12690 thousand hectares to 24070 thousand hectares since 1950/51. But barren and uncultivable land has fallen from 37484 thousand hectares to 17709 thousand hectares. Both the cultivable waste land and fallow land have also decreased during this period. But even today 4.4 percent of total reporting area is available as a cultivable waste land and 4.8 percent of total reporting area is fallow land. This indicates that there is scope to increase the net sown area by at least 5 to 10 percent by improving both cultivable waste land and fallow. Gross sown area was 131893 thousand hectares in 1950/51 and it has increased to 185704 thousand hectares in 2001/02.

This shows that only 11 percent of net sown area was used for more than one crop in 1950/51 and this figure increased to 31 percent in 2001/02. This point out that gross sown area can be increased by 70 percent of net sown area through intensive cropping.

Table1.1 - Land use classification in India (million ha)

year	**Net Area sown**	**Total cropped area**	**Net irrigated area**	**Gross irrigated area**	**Area irrigated more than once**
1	2	3	4	5	6
1950-51	118.75	131.89	20.85	22.56	1.71
1960-61	133.20	152.77	24.66	27.98	3.32
1970-71	140.86	165.79	31.10	38.20	7.09
1980-81	140.29	172.63	38.72	49.78	11.06
1990-91	143.00	185.74	48.02	63.20	15.18
2000-01	141.34	185.34	55.20	76.19	20.98
2010-11	141.56	197.56	63.66	88.93	25.27
2011-12	140.98	195.69	65.70	91.78	26.08
2012-13	139.94	194.14	66.27	92.25	25.98
2013-14	141.43	200.86	68.10	95.77	27.67

Source : Agricultural Statistics at a Glance, 2015, Directorate of Economics and Statistics, Ministry of Agriculture, Govt. of India (Website: http:/eands.dacnet.nic.in)

11.4 Factors influencing Agriculture development --

1) Physical Factors

factors affectiing physcal agriculture are 1) climate 2) Soil and 3) topography.

1) Climate: Climates play a dominating role in agriculture. Plants require sufficient heat and moisture for their growth. Normally , regions having maximum temperature of less than 10*c are not suitable for plant growth. In the tropical regions, where temperature is high througtout the year, agriculture is successfully done. Plant life is not possible in dry areas expect that with the help of irrigation. The moisture requirements vary from plant to plants and region to region. In the lower latitudes, where temperature is high, plants need more moisture for their growth(75 cm to 100 cm). On the other hand, in the higher latitudes where summers are cool, winds are not dry, rainfalls of 50-62 cm is sufficient for plant growth.

2) Soil: The richness of soil is another important physical factors affecting agriculture. Soils differ in respect of physical and comical composition. Soil may be fine soil like loam and silt are very fertile. The comical composition of soil determines its productivity. Generally, the soil which are found at the place of their origin, known as residual soils, are poor than those which have been transported from the place of their origin. The transported soil are and have a variety of minerals in them. The transported soil are – loess, transported by wind, alluvial, transported by river water, glacial, transported by glaciers.

The fertility of the soil decreases with constant cultivation. Soils became infertile if the fertility is not renewed. This can be achieved by leaving the land fallow, by rotation of crop and by use of manures and fertilizers. Soil erosion and water logging have became major problems with soil as such these should be checked by adopting contour framing, terrace farming, constructing dams and dykes.

3) Topography: The nature of topography play a significant role in the development of agriculture. It determines extent of soil erosion, method of cultivation and mode of transportation. In the mountainous and hilly region, soil erosion is common, terratian restricts use of machinery and development of means of transportation. However, in the flat regions, there is no such problems. Plain region have fertile soil. The flat topography facilitates use of machine. Means of transportation can be easily developed in the plain areas.

Moreover, dense population in the plain regions provides cheap agriculture labour and a huge market for the products. The alluvial plains, the river valleys and the delt as very suitable for agriculture.

2. Economic Factors

The most important economic factors affecting agriculture are: (a) market (b) transport facilities (c) labour (d) capital (e) Government policies.

(a) Market: Market is an important economic factor in agriculture. The distance from the market determines the cost of transportation. Agricultural crops like vegetables etc. are grown near the market.

Sugarcane is grown close to the urban centres, where sugar mills have developed. Similarly, dairy farming is developed around the cities, which serve as markets for the dairy products.

(b) Transport Facilities: The developments of efficient means of transportation widen the market for agricultural products.

(c) **Capital:** Agriculture, in the modern times is becoming mechanized. This involves huge capital investments. Purchase of machinery, fertilizers, pesticides and high yielding variety seeds require plenty of money. In India, the farmers are poor. They cannot afford use of modern farm technology, thus it affects agricultural production. The factor of availability of capital plays a significant role in the development of agriculture.

(d) **Labour**: The supply of labour determines the character and type of agriculture. Intensive cultivation requires a large supply of cheap labour. Availability of cheap and efficient labour is essential for the cultivation of crops like rice, tea, cotton and rubber. Thus, the factor of availability of labour also plays a vital role in agriculture.

(e) Government Policies: The policies of the Government also influence agricultural land use. The Government may restrict the cultivation of a crop or may force the farmers to grow a particular crop, e.g., area under sugarcane and oil seeds cultivation has increased in India on account of greater emphasis put by the Government on these crops. Government subsidy or liberal loan in respect of a particular crop helps in larger acreage under that crop. After 1947, the Government of India gave tax relief and concessions to the farmers for growing jute, with the result that in different parts of the country, area under jute cultivation had increased to a large extent.

3. Other Factors

The level of scientific and technological development has a great bearing on agriculture. Farmers, using primitive methods obtain poor yields. But on the other hand, where farmers are using modern farm technology in the shape of fertilizers, pesticides, machinery and high yielding variety seeds etc. the farm yields are high.

An Indian farmer is poorer in comparison to an American farmer because the later uses modern farm technology. The per hectare yield of rice in India is only 2000 kg as compared to about 5600 kg in Japan. This difference in yield is due to scientific and technological differences. The system of land tenure also plays a significant role in the patterns and productivity of agriculture crops.

11.4 Summery

In this chapter we know about the agriculture pattern since independence in Indian economy. We Know about the factor infusing the agriculture development such as physical factors, economic factors and other factors also. After 61 year of Independence, the share of agriculture in total national income declined from 50 percent in 1950 to 14 percent in 2017- 18. But even today more than 60 percent of workforce is engaged in agriculture.

11.5 Exercise

Q1 What are the growth of Indian Agriculture since independence?

Q2 What are the factors that influencing the agriculture development?

Q3 What you mean by agriculture policy overview?

11.6 Suggested Readings

- Uma, Kalpa (2008),' Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.
- Prakesh, B.A.(2009),' Indian Economy since 1991: Economic Reforms And Peformance. Sage Publication New Delhi.
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LESSON 12

AGRICULTURE -2

Structure

12.0 Objective

12.1 Introduction

12.2 Trends and Composition of Output

12.3 Growth of Agriculture GDP

12.4 Growth of Production of Major Crops

12.4.1 Pre-green Revolution Period [1950-51 to 1964-65]

12.4.2 The Beginning of Green Revolution [1967-68 to 1979-80]

12.4.3 The Maturing of Green Revolution [1980-81 to 1990-91]

12.4.4 Economic Liberalization [1990-91 to 2013 to 14]

12.5 Production of Major Crops (Crop-wise Analysis)

12.6 Trends in Agriculture productivity

12.7 Causes of low productivity of agriculture

12.8 Measures to Increase Agricultural Productivity in India

12.9 Summary

12.10 glossary

12.11 Exercise

12.12 Suggested Readings

12.0 Objective

- Know about the growth of production of crops
- Know about the causes of low productivity of agriculture
- Know about the measures increases the low productivity of agriculture

12.1 Introduction

On the eve of the independence, the agriculture sector was the pre dominant sector of Indian economy both the term of its contribution to the gross domestic product(GDP) and in providing employment to the countries labour force. therefore the, fortunes of large majority of people in India were basically linked with agriculture performance.

Accelerated growth of agriculture was instrumental not only in raising the income level of agriculture workers but also transforming India from a cronic food deficit country into a food self-suffient country. The different growth of various sector in India in the post independence period has resulted in major changes in composition of gross domestic product of India. one important consequence is that in the share of in agriculture in total gross domestic product has sharply declined from 57.7 during 1950-51 to only 20.8 percent in the 2004-05 and declining further to 17.6% in 2014-15 but the share of agriculture in total employment has declined only marginally from 73.9% in 1973-74 to 56.5 by 2004-05 and 54.6% according to 2011 census.

In addition to its contribution to GDP and employment the agriculture sector in India also play a major role in the economy by producing a large production of foodgrains, fodder edible oil and fruits and vegetables and milk, meat and food product etc. The agriculture sector also provide the bulk of raw materials to most traditional agro-based industries. In addition , agriculture sector also make a notable contribution to export and account for nearly one eighth of total exports of the country. Finally, since a very large numbers of workers are engaged in agriculture, they provide a huge market for manufacturing industries and services.

12.2 Trends and Composition of Output

(i) During the Independence:

The growth rate of agriculture output was quite low throughout the first half of the 20th century. According to Blyns estimates prepared on the basis of 18 major crops during 1901-1902 to 1940-44, agricultural output recorded a growth rate of 0.262 percent per annum at 1925-29prices.According to Siva Subramonian's extended study of the state of India covering 25 using 1938-39 prices, the growth rate of total agricultural output was .4% per during 1900-01 to1946-47. While a food grain grew at .15% p.a., the growth rate of non-food grain was .77%p.a. but significant change and the share of agriculture in the labour forced remained more or less constant at 75% from 1900-01 to 1946-47.

2) During Post- independence Period

The independence of India in 1947 marked a turning point in the History of its economic development. In agriculture the public sector played a promotional role through moblizing financial and physical resources for investment. The main elements of plans strategy for agricultural growth consisted of land reforms and large investment in irrigation and other rural infrastructure, investment in science and technology, promotion of new technology in agriculture though input subsidies and granted minimum supported prices. These policies resulted in bringing about a credible acceleration in growth rates in Indian agriculture. Taking the entire period 1950-51 to 2013-14, agriculture GDP recorded a growth rate of 3.4 % p.a. as compared with a growth rate of agriculture product of .46% p.a. during 1900- 01 to 1946- 47.

For analysis, the post independence period 1950-51 to 2013-14 is divided into 4 sub periods. The agriculture sector as a whole recorded a reasonable high growth during the first period 1950-51 to 1964-65.There was a notable deceleration in growth rates of agriculture during the second period 1967-68 to 1979-80 despite the introduction of seed fertilizer technology during the mid- sixties. With the maturing of green revolution, the agriculture sector recorded the highest growth during the second period 1980-81 to 1990-91. The growth rate of economy accelerated during the post reforms period 1990-91to 2013-14. But the growth rate of agriculture both the term of GDP and value of output during 1950-51 to 2013-14 and in different sub - period are described in the following section.

12.3 Growth of Agriculture GDP

During 1950-51 to 1965-66 ,the overall GDP recorded a growth rate of about 3.94% pa and per capita income grew at a rate of 1.86 per cent of per annum. The period 1967-68 to 1979-80 is charctersized by a perceptible deceleration of growth of overall and sectorial GDP. This happened primarily because of after effect of severe drought during 1956-1966 and 1966-67 and also as a consequence of the after effect of wars. two oil crises and a drastic reduction in foreign aid. the period 1980-91 showed a marked revival in the agricultural sector because of the rapid spread of Borlaug new seed-fertilizer technology to new crops and new areas. the changes in macro economic policy and trade policy with the imitation of economic reforms in 1991 had a deep effect on the agricultural sector.

during the post reform period 1990-91 to 2003-04,the growth rate of agriculture decelerated to 2.38%per annum compared with a growth rate of 3.08% per annum during 1980-81 to 1990-91. the share of agriculture in national income has come down since the inception of planning era in the economy, but still it has a substantial share in GDP. Agriculture including allied activities , accounted for 13.7%of gross domestic product at 2004-05 prices, in 2016-17 GDP 13.9 % as compared to 14.7% in 2009-10 which means decline of the primary sector in GDP.

12.4 Growth of Production of Major Crops

Food grains output increased from 50.82 million tonnes in 1950-51 to 257.07 million tonnes in 2014-15. In the meantime wheat output increased from 6.46 million tonnnes to 103.04 million tonnes. Some of the commercial crops like oilseeds, cotton and sugarcane also registered large increases in output. The whole period is conveniently divided in to four sub periods.

12.4.1 Pre-Green Revolution Period [1950-51 to 1964-65]

During the first period [1950-51 to 1964-65] total crop output in India recorded a trend growth rate of 3.15% per annum. This growth rate was fairly high and was achieved mainly as a result of increases in irrigation and sown area. The growth rate of food grains output was 2.82% per annum during this period.

12.4.2 The beginning of Green Revolution [1967-68 to 1979-80]

The growth rate total crop output during [1967-68 to 1979-80] decelerated to 2.19% per annum during he earlier period. The growth rate of food grains output also decelerated to 2.15% per annum during this period compared with 2.82% per annum earlier. Wheat output had more than doubled to 23.8 million tonnes by 1970-71.It constituted nearly 22% of total food grains output in that year. Even by 1970-71 rice accounted for nearly 40% and coarse cereals 28.2% of total food grains output. It shows that the impact of HYV on growth of the food grains in only limited.

12.4.3 The Maturing of Green Revolution [1980-81 to 1990-91]

The growth rate of crop output recorded a spectacular growth rate of 3.19% during the period 1980-81 to 1990-91. A notable features of this period was that the rapid growth of agriculture was not confined only to wheat. It also spread in a big way to rice and also some coarse cearels as well as some commercial crops like cotton, sugarcane and oil seeds. Another notable feature was that the green revolution which was hither to confined to the north western region spread almost evenly to all the region of India.

12.4.4 Economic Liberalization [1990-91 To 2013-14]

A new policy frame work of comprehensive macro economic and trade policy reforms was initiated in India 1990. In the agricultural sector the key area of reforms consisted of liberalizing the working of commodity markets, reforming commodity price policy and gradual withdrawal of input subsidies. One of the main objectives of policy was to end discrimination against agriculture and improve the terms of trade of agriculture visa vis other sectors of the economy.

However, contrary to expectation instead of showing any buoyancy, the growth rates of agriculture sector recorded a significant deceleration after the introduction of econo0mic reforms in 19991. The growth rate of agricultural GDP decelerated from 3.08 % per annum during 1980-81 to 1990-91to 2.38% per annum during 2013 -14. The growth rate of crop output increased from 3.19 % per annum during the 1980s to 11.8% per annum during the latter period. Similarly, the growth rate of foods grains output decreased to an all period low of 3.0%. There took place decline in the per capita availability of food grains during the post reform period.

12.5 Production of Major Crops (Crop wise Analysis)

A competitive analysis of performance of food grain crops in India from 1980-81 onwards, vividly shows that in term of production, performance of non-foodgrains crpo0s had been relatively better compared to the post reform period, the annual; growth rates in production of both the food grain and non food grain crops are found to be higher during the 1980s. During the perio0d from 1980-81to1990-91that way number of the production of food grain crops registred an annual compound growth rate of 3.20 % but during the period from 1990-91 to 2006-07. It declined to 1.27%. In the case of non-food grain corresponding growth rate was 4.84 and 2.75%. Similarly, the annual growth rate in the yield of food grain crops during the period from 1990-91 to 2006-07 is found to be 3.43% while the corresponding figure for the non-food grains crops was only 1.76 percent. According to Minister of Agriculture and farmer Welfare Total foodgrains production in the country is estimated at record 271.98 million tonnes in the years 2016-17.

1) **Rice:** Rice is the predominant food grain crops in India. In the production of rice India's ranks second, next of china. During the period from1980-81 to 2016-17, rice production in India was increased from 53.63 million tonnes to 108.86 million tonnes.

2) Wheat: In 2007 the country accounted for 12.51 per cent of world's wheat production. Within a period of 26 years from 1980-81 to 2006-07, wheat production in India increased from 36.31million tonnes to 75.8 million tonnes, showing more than two fold increase. The production of wheat stood at 95.76 million tonnes in 2014-15 and 96.64 million tonnes recorded in the year 2016-17.

3) Coarse cereals : In sub groups of coarse cereals crops consists of six cereals, viz. jowar , bajra, maize, ragi, barely and millets. In the production of coarse cereals, India holds the sixth position in the world. During the years 1980-81 the country produced 29.02 million tonnes of the coarse cereals and it increased to 32.70 million tonnes by the years 1990-91. Since the early years of the 1990s production of the coarse cereals in India stagnated around 30 million tonnes. The average annual growth rate in the production during the period from 1990-91 to 2006-07 it declined to .23 per cent. The production of coarse cereals was 39.83 million tonnes in 2014-15.

4) **Pulses:** In the production of pulses, India ranks first in the world During the period from 1980-81to2006-07, The total production of pulses in the country increased from 10.63 million tonnes showing an aggregated increased of 33.58 per cent. It further increased to 18.43 to million tonnes in 2014-15 . The production of pulses recorded 22.14 million tonnes in the years 2016-17.

5) **Oilseed-** The sub group of nine oilseed consisted of ground nut, castor seed, linseed , Niger seed, sunflower, sesame, soyabean, rapeseed, linseed, mustrad. Nearly 25 % of the global production of groundnut comes from India. India is the second largest producer of this crops. During the period 1980-81 to 2006-07 , the total annual production increased from 9.37 to 24.29 million tonnes registered on overall increase of 169.90 percent and the annual growth rate 3.59 percent. The production of oilseed stood at 29.83 million tonnes in 2014-15. With an increase of 7.27 million tonnes (28.80%) over the previous year, total Oilseeds production in the country is estimated at 32.52 million tonnes. The production of Oilseeds during 2016-17 is also higher by 3.27 million tonnes (11.17%) than the five year’s average Oilseeds production.

6) Cotton: Cotton is one of the important commercial crops cultivated in India. Next to china the U.S. , India commands the third position among the cotton producing countries the world. The domestic production of cotton which was 7.01million bales in 1980-81, increased to 22.63 million bales by the years 2006-07 and it further increased to 35.15 million bales by the years 2014-15. Despite lower area coverage during 2016-17, higher productivity of Cotton has resulted into higher production of 32.58 million bales (of 170 kg each), i.e. an increase of 8.57%, as compared to 30.01 million bales during 2015-16.

7) Jute and Mesta: India hold first position in the world in the production of jute and jute like fibers. The production of Jute and Mesta increased from 8.16 to 11.6 million during the period from 1980-81 to 2013-14.

8) Sugarcane: Among the sugarcane growing countries in the world, India hold the second position next to Brazil in the production of crops. In the year 2006 20.19opercent of global production of the sugarcane came from the country. Within the period from 1980-81 to 2006-07, the production of sugarcane an aggregated increase of

130.48 percent, and an impressive annual growth rate of 3.26 per cent . It stood at 352.14 million tonnes in 2013-14 showing decrease from 2006-07. India was the largest producer of sugarcane in the world for the year 2014-15.

9) Plantation crops: Tea coffee and natural rubber is the three important plantation crops cultivated in India. India is the second largest producer of tea in the world . During the period from 1982-83 to 2007-08 , the production of tea in India increased from 561 million kilograms to 1 million tonnes and the annual compound growth rate in production during the period is estimated at 2.29 percent. In the production of coffee India stood at sixth position in the world. Total production of crops during the years 2013-14 had been0.3 million tonnes . India is the 3rd largest producer of natural rubber in the world, next to Thailand and Indonesia. In the country, Kerala has nearly monopoly in the production of robber. During the period 1990-91 to 2013-14, the production of natural rubber in the country increased from 3.3 to 3 lakh tonnes, showing an overall increase.

In addition to the major crops, mentioned above a wide variety of condiments and spices like pepper, ginger, garlic, chilly, turmeric, coriander, etc. and fruits and vegetables like potato, onion, banana, cashewnut, tapioca, sweat potato etc. are also cultivated in India

Table:1.1 Production of Major Crops (Million Tonnes)

group	1970-71	1980-81	1990-91	2000-01	2009-10	2010-11	2011-12	2012-13	2013-14	2015-16
Food grains	108.4	129.6	176.4	196.8	218.1	244.5	259.3	257.1	264.8	275.1
Kharif	68.9	77.7	99.4	102.1	104	120.9	131.3	128.1	129.2	135
Rabi	39.5	51.9	77	94.7	114.1	123.6	128	129.1	135.5	140.4
Cereal	96.6	119	162.1	185.7	203.4	226.3	240.8	238.8	245.5	235.2
Kharif	65	73.9	94	97.6	99.7	113.8	125.2	122.2	123.2	118.4
Rabi	31.6	45.1	68.1	88.1	103.7	112.5	115.6	116.6	122.3	117.2
pulses	11.8	10.6	14.3	11	14.7	18.2	17.1	18.3	19.3	16.35
Kharif	3.9	3.8	5.4	4.4	4.2	7.1	6.1	5.9	6	5.5
Rabi	7.9	6.8	8.9	6.6	10.5	11.1	11	12.4	13.3	10.9
Rice	42.2	53.6	74.3	85	89.1	96	105.3	105.2	106.5	104.4
Kharif	39.5	50.1	66.3	72.8	75.9	80.7	92.8	92.4	91.7	91.4
Rabi	2.7	3.5	8	12.2	13.2	15.3	12.5	12.9	14.9	13
Wheat	23.8	36.3	55.1	69.7	80.8	86.9	93.5	93.5	95.9	92.2
Jower	8.1	10.4	11.7	7.5	6.7	7	6	5.3	5.4	4.2
Maize	7.5	7	9	12	16.7	21.7	21.8	22.3	24.4	22.5

Source: Directorate of Economics & Statistics, department of Agriculture& cooperation

12.6 Trends in Agriculture productivity

By the term agricultural productivity we mean the varying relationship between the agricultural output and one of the major inputs such as land. The most commonly used term for representing agricultural productivity is the average yield per hectare of land. Productivity shows the production or output per unit of input. Agriculture productivity is generally studied from two perspectives.

1) Productivity of Land

2) Productivity of Labour

1) Productivity of Land: It is given as output per hectare of land. In the early period of independence the yield per hectare of land was extremely low in case of all crops. The two major food crops viz. Wheat and rice have shown substantial increase in productivity during early 70s. The productivity in coarse cereals like maize improved largely after 1980-81. This is mainly due to widespread use of high yielding varieties of seeds, development of irrigation facilities and use of fertilizers. In case of other crops like pules and oilseed , productivity gains have been negligible. But for other food crops the increase in productivity has been very slow. In the case of nonfood crops the significant increase in productivity growth in oilseed has not been very encouraging.

2) **Productivity of Labour Engaged in Agriculture:** It is given as output of Indian cultivator is very poor as compared to cultivators in the developed countries. This can be seen from the fact that 48.9 percent of work forced engaged in agriculture contributes only 20.5 percent of national income in 2011-12. Thus remaining 51.1 percent contributes 79.5 percent of national income . In developed nation like USA, U.K. the contribution of agriculture accounts for about 5 percent to 7 percent of national income with only 5 percent to 25 percent of workforce engaged in agriculture. This clearly indicates the low level of productivity of workforce engaged in agriculture.

Table 1.2 Area, Production and Productivity of Horticulture Crops

Year	Area	Production	Productivity
2007-08	20.2	211.0	10.45
2008-09	20.5	214.4	10.46
2009-10	20.8	223.2	10.73
2010-11	21.8	240.4	11.03
2011-12	23.2	257.3	11.09
2012-13	23.7	268.8	11.34
2013-14	24.5	280.8	11.46
2014-15	23.2	277.7	11.96
2015-16	25.5	286.2	11.68
2016-17	24.8	300.6	12.1
2017-18	24.9	305.4	12.3

Source: Annual report of GOI 2017-18

Table shows the area production and productivity of Indian horticulture crops during the period 2007-08 to 2017-18. In 2007-08 the area20.2 m ha ,production 211.0 M. T. and productivity was10.45mn/hc which is increased by 24.9 m ha,305.4 M. T. and 12.3mn/hc.

12.7 Causes of Low Productivity of Agriculture:

The main causes for low productivity of agriculture are broadly of three types;

1. Human Factors:

Human favors are those which are related to training and efficiency of the farmers.

(i) Social Atmosphere: Causes for Low Productivity of Agriculture Social climate includes customs and traditions. Indian farmer is illiterate and has no knowledge for latest techniques of production. He believes in God and fatalist in thought. He wastes money on customs and traditions. So social climate is not suitable for agriculture.

(ii) Pressure of Population on Land: Heavy pressure of population is the main cause of low productivity of Indian agriculture. In 1901, 16.30 crore people were dependent on agriculture. The number has gone up to 58.80 crore. So per capita cultivable land had reduced from 0.43 hectare to 0.23 hectare. Heavy pressure has led to subdivision and fragmentation of land holdings.

2. Technical Factors:

Technical Factors include techniques and methods of production:

(i) Traditional Methods of Cultivation: Traditional methods of cultivation like manual ploughing, two crop pattern and old system of irrigation are mainly responsible for low productivity of agriculture.

(ii) Old Implements: Traditional equipment's like wooden ploughs, sickles and spades are commonly used. Tractors & Combines are not so common in use. Due to the use of these old implements agriculture is backward.

(iii) Insufficient Irrigation Facilities: Indian agriculture is mainly dependent on rain. Even after 60 years of Independence only 40% of the agricultural land has permanent irrigation facility. Due to improper irrigation facility, farmer can produce one crop only in a year.

(iv) Problems of Soil: Indian soil has many problems like soil erosion, water logging, nitrogen deficiency and swamps. These are the reasons for low productivity of agriculture.

(v) Problems of Pests and Diseases of Crops: Plant diseases like rust and smut and rats, insects and pests destroy large portion of crops.

(vi) Feeble Cattle: Due to limited mechanization of Indian agriculture, cattle has significant place in agriculture. Cattle are generally weak. Farmer has to spent a lot on these Cattle farming is more time consuming and expensive than tractor. So these also increase the cost of agriculture.

(vii) Lack of Credit Facility: Credit facilities are inadequate in rural areas. Farmers can not be able to raise credit from rural banks easily. They have to depend on 'Mahajans' and 'Shahukars'. These money lenders charge heavy rate of interest. Farmers have to sell their produce at low price to these money lenders. So farmers have low Income and thus low productivity.

(viii) Lack of High Yielding Variety (HYV) Seeds: HYV seeds are not commonly used. Farmers do not understand their significance. They cannot afford to buy them and also these seeds are not easily available.

(ix) Improper Marketing: Improper marketing is a significant factor for low productivity of agriculture. Farmers fail to get suitable price for their produce. Inadequate means of transport forces the farmers to sell their produce to local money lenders at low prices. Due to lack of warehousing facilities, farmers can not able to store their produce when prices are low. So these attribute a lot for low productivity of agriculture.

3. Institutional Factors:

Institutional factors include land holdings and land system-

(i) Small Size of Farms: Land holdings in India are of very small size. Average size of holding is 2.3 hectare and 70% of the holdings are even less than 2 hectares. These holdings are fragmented. Due to these small holdings, mechanised cultivation is difficult. Implements and irrigation facilities are not properly utilized. It affects Indian agriculture .

(ii) Defective Land Tenure System: Zamindari system has been an important factor responsible for the low productivity of Indian agriculture. In this system cultivator is not owner of land. Zamindar is the owner of land and he can evict the tenant any time. So the cultivator does not take interest in the development of land and Zaminder does not take interest in the development of cultivation. Though Zamindari system was abolished after independence yet the position of cultivator has not improved.

12.8 Measures to Increase Agricultural Productivity in India

(1) Institutional Reforms:

Institutional arrangements cover such measures as better agrarian relations introduced through land reforms, proper arrangements for adequate financing, and regulating the distribution of agricultural products, etc. While policies for strengthening the institutional structure for development of agriculture have been adopted and are in place, the key to their success lies in effective implementation-an aspect of which more concerted attention, than hitherto, needs to be given.

Another aspect of institutional reform is the need to improve the efficiency of delivery systems in rural development by empowering the institutions elected by the people. This would require devolution of functions, transfer of necessary resources and empowering the functionaries in discharging their administrative responsibilities.

(2) Technological Improvements:

Technological improvements in agriculture can be classified into two broad kinds: biological and mechanical.

(a) Biological innovations usually refer to factors that raise land productivity and are, therefore, generally land-saving. Better seeds and the use of fertilisers in the right doses at the right time are useful instances.

(b) Mechanical innovations usually mean the use of more machinery like tractors that is labour- saving. In order to expedite these improvements, policies need to be so framed as to encourage and promote their adoption by designing suitable policies.

(3) Improving the Returns to Farmers:

For this purpose, both(a) price measures and (b) non-price measures need to be adopted.-

(a) Price Measures Would Include:

(i) Raising procurement and support prices so as to improve the terms of trade of agriculture.

(ii) In regard to the dry land arid hilly areas, where only one crop can be grown- usually millets- the prices should be so fixed that the market forces would increase their demand generating more income for the growers.

(b) The Non-price Methods Include:

(i) Stabilising the returns from agriculture, especially in rain fed areas, by an effective crop insurance scheme;

(ii) Reducing the number of farmers per unit of output by promoting non-farm economic activities;

(iii) Providing the farmers direct access to the market so that they can claim a share of the traders' profit;

(iv) Reducing costs by the implementation of less expensive technologies especially in rain fed agriculture;

(v) Promoting industry-agriculture linkages through contract farming;

(vi) Pooling land creating larger farms rendering benefit by economies of scale; likewise, pooling of capital making it possible to invest in items of advanced technology;

(vii) Lifting controls on free movement, stock limits, futures trading etc.; and

(viii) Improving farm productivity by an approach where agri-business is operated like an industry. In this, the industry itself has to take initiative and arrange for the delivery of necessary inputs.

(4) Producer Incentives for Stimulating Growth:

The case for producer incentives for stimulating agricultural growth and adoption of new technology has been well argued in the literature on agricultural development. Such incentives as price supports, input subsidies, subsidised institutional credit, food subsidies, etc. are suggested for both stimulating growth and achieving certain welfare objective like regional and social equity.

In short, agricultural productivity is a function of a large number of determinants. An effective policy requires a holistic approach in which the various factors outlined above are integrated with a view to achieve the desired objective.

12.9 Summary

In this lesson we studied about the changing position of agriculture in India .We also studied the production trends of curtains crops. We have also gone through the causes of low productivity and also discussed about some measures to imporve the productivity.

12.10 Glossary

1) Productivity: the rate at which crops are grown on standers area of land

2) Co-operative farming: Co-operative farming is a term that describes the business of agriculture, specially, what is seen by some as the practices of would be mega corporation involved in food production on a very large scale.

12.11 Exercise

Q1. Explain the trends of Indian agriculture production and productivity?

Q2. What are the causes of low productivity of agriculture in India?

12.12 Suggested Readings

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LESSON 13

LAND REFORMS

STRUCTURE

13.0 Objective

13.1 Introduction

13.1.1 Meaning of Land Reforms

13.1.2 Agrarian structure on the eve of independence

13.2 Importance of Land Reform

13.3 Objectives of Land Reforms

13.4 Measures of Land Reforms

13.5 An Overall Appraisal of Land Reforms

13.6 Causes of slow progress of land reform

13.7 Impact of the Land Reform Policy

13.8 Summary

13.9 Exercise

13.10 Glossary

13.11 Suggested Readings

13.0 Objectives

- Know about the meaning and importance of land reforms
- Understanding about the objective and measures of land reforms

13.1 Introduction

The term “Land reforms” is often used in discussing the various changes made in the cultivator’s relation to a land in a land tenure system. Derived from the Latin word “teneo”, the word tenure means “to hold”. Land tenure is therefore used to refer to the conditions under which land is held. It therefore describes the arrangements by which farmers or others hold or control land and the condition of its use and occupancy. Land constitutes the concurrent list of the constitution of India. It is within the state power to legislate for land reforms. Each state in the country has its own agenda of land reforms.

13.1.1 Meaning of Land Reforms:

Land reform is a broad term. It refers to an institutional measure directed towards altering the existing pattern of ownership, tenancy and management of land. It entails “a redistribution of the rights of ownership and/or use of land away from large landowners and in favour of cultivators with very limited or no landholdings.”

Thus, in a broad sense, land reform refers to an improvement in agro-economic institutions. It includes measures and policies relating to redistribution of land, regulation of rent, improving the conditions of tenancy, cooperative organization, agricultural education, and so on.

13.1.2 Agrarian structure on the eve of independence

Land policy in India has been a major topic of government policy discussions since the time prior to Independence from British rule. The peasants of the country strongly backed the independence movement and the "Land to the Tiller" policy of the Congress Party because of the prevailing agrarian conditions. The agrarian structure during British administration emerged with a strong historical background . The land-revenue system implemented by Todar Mal during Akbar's regime can be traced as the possible beginning of systematic efforts to manage the land. This method incorporated measurement, classification and fixation of rent as its main components. Under the various pre- British regimes, land revenues collected by the state confirmed its right to land produce, and that it was the sole owner of the land. British rulers took a cue from this system and allowed the existence of no cultivating intermediaries. The existence of these parasitic intermediaries served as an economic instrument to extract high revenues as well as sustaining the political hold on the country. Thus at the time of Independence the agrarian structure was characterized by parasitic, rent-seeking intermediaries, different land revenue and ownership systems across regions, small numbers of land holders holding a large share of the land, a high density of tenant cultivators, many of whom had insecure tenancy, and exploitative production relations .

13.2 Importance of Land Reform:

In backward and largely rural societies the pattern of landholding happens to be a major correlate of the political power structure, social hierarchy and economic relations. Possession of land ownership further determines the manner in which land and labour are combined for production purposes and has direct implication on the quantum and distribution of the produce. This, in turn, affects the relative and absolute well-being of the population dependent on agriculture and others dependent on the agricultural sector for food.

For countries with a large agricultural base the key to development is Improvement of agriculture. Land is the major resource base in lilt' agricultural sector. It is essential that land relations are properly and the short-comings of the agrarian structure like highly skewed distribution of land.

Insecurity of tenure, high incidence of landlessness, high rents and rural indebtedness are attended to. Thus the importance of land reforms becomes central to the agrarian structure. Supply of agricultural land being inflexible, the title to land and its distribution has become a key issue of rural society and polity.

The social objectives of land reform are as important as its economic and political objectives. Land reform is visualised as an instrument of social Justice as it seeks to d^ away with exploitative relationships characterised by sharp class division between rich landowning classes and impoverished peasants with lo security of tenure. It is a step against the concentration of land holdings in the hands of a few absentee/non-cultivating owners, through imposition of ceilings on size of holdings which can be owned by a family. Land reforms alter the power structure, both economic and political, since land has always been a source of wealth, income, status and power. It empowers the actual tillers of the soil, and organises and enables them to seek development benefits from the state.

Land reforms are also a means of increasing agricultural production through land development since the peasant develops a long term interest for investing in the land he owns. He also has an incentive to acquire new form technologies and innovations. As a result of land reform the small farmer is benefited specially with the massive inputs provided by the state to the farmer.

13.3 Objectives of Land Reforms:

Land reform is a part of heritage of the country's freedom movement since the agrarian structure that we inherited from the British at the time of independence was of the feudalistic exploitative character. Zamindars- intermediaries-moneylenders played a big role in exploiting the masses. It is in this background that we have to examine the objectives of land reform policy in India. Land reform measures aim not only at raising agricultural productivity. It is also viewed as a tool for social uplift.

The major objectives of land reform package, as identified in the Eighth Plan, are:

i. Restructuring of agrarian relations to achieve an egalitarian structure;

ii. Elimination of exploitation in land relations;

iii. Actualization of the goal of "land to the tiller";

iv. Improvement of socio-economic conditions of the rural poor by widening their land base;

v. Increasing agricultural production and productivity;

vi. Facilitating land-based development of rural poor; and

vii. Infusion of a great measure of equality in local institutions.

In fine, growth and social justice are the basic objectives of land reform measures.

13.4 Measures of Land Reforms:

The comprehensive land reform policy that evolved so far after independence consisted of:

i. Abolition of intermediaries between the State and tenants;

ii. Tenancy reforms that provide (a) security to tenants, (b) rationalisation and regulation of rent, and (c) conferment of ownership rights on tenants;

iii. Fixation of ceiling on landholdings;

v. Consolidation of holdings; and

(i) Abolition of intermediaries:

Abolition of zamindari and similar intermediary tenures during 1950-55 essentially involved removal of intermediary levels or layers of various amorphous and parasitic groups in land between the State and the actual cultivators. However, such abolition of intermediaries involved compensation to the owners of land. As a result of this measure, about 2.5 crore farmers were brought into direct relationship with the State. This facilitated distribution of 61 lakh hectares of land to landless farmers. Large areas of privately-owned forests and wasteland now vested in the State.

Despite abolition of intermediary rights, poor peasantry continued to be exploited in various ways. It led to large-scale ejectment of poor tenants from land. While landlordism has been abolished, absentee landlordism now continues to flourish. The legislation conferred ownership rights not upon the actual cultivator, but on the statutory tenant, who himself was an intermediary with a chain of sub-tenants under him. All this happened because:

(i) The law permitted the intermediaries to retain their home farms,

(ii) No limit was put on the area of land they could retain,

(iii) The term ‘personal cultivation’ was ill-defined, and

(iv) No protection was given to sharecroppers and other tenants-at-will.

Thus, the abolition of intermediary rights on land has not been an unmixed blessing. “Not every Y was crossed and every ‘i’ was dotted, but the job was done.” Undoubtedly, this zamindari abolition has paved the way for a remarkable shift in the balance of power. But the goal of “land to the tiller” is yet to be achieved.

(ii) Tenancy Reforms:

Tenancy legislations have taken three forms:

(i) Regulation of rent,

(ii) Providing security of tenure, and

(iii) Conferring rights of ownership for tenants.

Rent payable to the landowners should not exceed one-fifth to one-fourth of the gross produce of land. In the light of this guideline, all the states have enacted laws for fixation of rent. However, large inter-state variations exist in the fixation of land rent rates. Further, one notices inter-state differences in land rents.

Even the tenancy reforms have failed to regulate rent. Owing to the weak position of tenants, demand for fair and just rent from landowners occasionally lead to adjustment from land. Tenancy Legislations have made it clear that in no case the tenants can be evicted except only in the situation where landlords themselves want to resume cultivation. Even in the event of resumption of cultivation by the owners, tenancy legislations have made it obligatory to leave a minimum area for the tenant. A very important aspect of land reform is the conferment of ownership rights to tenants in respect of non-resumable land. As a result of this measure, by 2000, only around 124.2

lakh tenants operating no more than 4 p.c. of the cultivated area have been benefited from this ownership rights or their rights have been protected on 63.2 lakh hectares of land.

On the eve of tenancy reforms, the area under tenancy was around 50 p.c. As a result of this action, this area has been reduced to 15 p.c. of the operated area by 2000.

Overall impact of tenancy reforms has been rather limited. Firstly, tenancy laws have been violated. For instance, in Bihar, the maximum limit of rent was kept at 25 p.c. of the gross produce. But tenants are required to pay even more than 50 p.c. as their social standing is abominably low. Secondly, as regards the security of tenant- cultivator, escape clauses have been misused against the interest of tenants.

Tenancy laws that have been framed in different states contained a provision for the resumption of land by the landowners for ‘personal cultivation’ with the object of protecting the interests of landowners, rather than tenants. Due to a loose definition of the term personal cultivation, landowners continued to resume land for self-cultivation. The law also permitted the voluntary surrender of tenancies. Informal or concealed and oral tenancies are still prevalent.

Thus, the right of resumption of land for self-cultivation has rendered all tenancies insecure. Finally, there is no legal provision for conferring ownership rights in the tenancy laws of some states. In reality, legislation for conferment of ownership rights could not yield good results because many tenants are incapable of buying land from the landowners and many of them are unwilling to do so.

(iii) Ceiling on Landholdings:

To reduce the existing disparities in the pattern of land-ownership and make some land available for distribution to landless agricultural workers, the Second Plan (1956-1961) recommended the imposition of ceilings on agricultural holdings.

It was envisaged that land above a certain limit would be acquired by the State and redistributed among the landless workers and small farmers so as to meet their hunger for land and, thus, to enable them to create economic holdings.

Land ceiling laws were passed in two phases. In the first phase—which lasted up to the end of 1972— ‘landholder’ was treated as the unit of the cultivation. This ceiling unit was changed to ‘family’ after 1972. The ceiling limits have also been lowered in the second phase with differences varying as between irrigated land with two crops, irrigated land with one crop, and dry land. But exemption for orchards, grazing land, cattle- breeding farms, religious/charitable/educational trusts, sugarcane plantations, tank, fisheries have made the ceiling laws virtually redundant.

Up to end September 2001, the total amount of land declared surplus was 73.67 lakh acres, 64.95 lakh acres of land have been taken over by the states. A total of 53.79 lakh acres of land have been distributed among 54.84 lakh tenants. This amounts to saying that about 12 lakh acres of land could not be distributed because of variety of reasons, of which litigation is considered to be the most inhibiting factor. The operations of the ceiling law made virtually no impact on the agrarian structure. The enforcement of the ceiling law was preceded by a public debate spread over several years. This enabled landowners to manipulate land records leading to fictitious (benami) and fraudulent partitions of lands among their relations, friends, fictitious trusts, etc. We have seen that the extent of area declared surplus is much less than the estimated surplus, mainly due to a wide range of exemptions provided in the ceiling laws, shortcomings and loopholes in the laws and inefficient implementation of the laws.

As a result, only the small landowners were caught in the net and most of the big landowners or jotedars circumvented it and, even if the land was taken from them, it was not redistributed among the landless peasants. Lack of political will is considered to be the greatest stumbling block for its speedy implementation.

(iv) Consolidation of Landholdings:

Fragmented and subdivided landholdings as well as small-sized holdings have made Indian agriculture un-remunerative. So consolidation of these lands is necessary to boost efficiency and economy in India's agriculture. It has been completed in the states of Punjab, Haryana and Uttar Pradesh. Till December 2001, nearly, 163.3 lakh acres of land or 1 /3rd of the total cultivated area have been consolidated. Thus, the success story in this regard is rather disappointing. One of the reasons for the tardy progress of this aspect of land reforms is that small farmers have a strong fear that consolidation favours large farmers. That is why the threat of eviction of tenants from land out of consolidation is the greatest.

13.5 An Overall Appraisal of Land Reforms:

After more than 60 years of independence, one notices some achievements in the sphere of land reforms. At the same time, our efforts in this direction have not yielded desired results. Most of the planks of land reform measures are ambivalent and there are large gaps between policy and legislation and between legislation and implementation. And "land reform measures were conceived boldly but were implemented badly"—observed an expert. The laws for the abolition of intermediaries had been implemented fairly well. As a result, 20 million cultivators were brought into direct relationship with the State. But this reform led to large-scale adjustment of tenants from land which they had been cultivating for generations as the laws failed to offer any protection to these masses.

Thus, the slogan "land to the tiller" virtually remained unfulfilled. A class of neo-zamindars or absentee landlords has sprung up in rural India who grabs the produce of the earth as well as the land! It was hoped that tenancy reforms would ensure better results as far as the lot of tenants and sharecroppers were concerned. Tenancy reforms devised so far have not brought to an end of the system of absentee ownership of land nor have led to disappearance of tenancies. Everywhere the immediate consequence was the ejectment of tenants on a massive scale. The consequence of the tenancy policy was to push tenancies underground. Most of the tenancies that still exist take the form of informal or concealed crop- sharing arrangements.

Again, there are reports of large-scale evasion of ceiling laws because of non-implementation of the laws. For instance, in the district of Purina of Bihar "there are several landowners who own, and effectively control, at least 1,000 acres each, a few of them owning as many as 5,000 acres. But land records show them to be owning not more than 15 acres—the upper limit according to the ceiling laws—the rest of land being transferred to mostly benamis (fake owners)."

To sum up, land reform programmes implemented since 1948 have not led to any radical distribution of land or removal of some of the obstacles to raising agricultural productivity. Nevertheless, it should not be written off as a non- event'. It brought great changes. It did away with the numerous layers of parasitic intermediaries in almost all the states.

All the measures listed above, however, have left untouched the bottom layer of the agrarian structure consisting of agricultural labourers, sharecroppers, except in the states of West Bengal and Kerala where left-wing political parties changed the destiny of the poor peasantry vis-a-vis the jotedars, are poor customers.

13.6 Causes of Slow Progress of Land Reform

Some of the major causes of slow progress of land reforms in India are as follows: 1. Deficiency of Reliable Records 2. Lack of Financial Support 3. Lack of Integrated Approach 4. Improper Implementation 5. Legal Hurdles 6. Lack of Pressure from Below 7. Lack of Political Will 8. Indifferent Attitude of the Administration. The Task Force on agrarian relations was set up the Planning Commission for the purpose of appraising of progress and problems of land reforms. It enumerated the following causes of poor progress of land reforms in India.

1. Deficiency of Reliable Records:

The absence of concurrent evaluation and reliable (up-to-date) records is the biggest hurdle for the slow progress of land reforms. After forty five years of land reforms, the reporting system is weak and irregular. There has been no systematic review of progress at periodic intervals. No efforts are being made to make comprehensive concurrent evaluation. Wrong records are maintained with deliberate mala-fide motives. Therefore, it is not possible to identify obstacles in the way of implementation of land reform.

2. Lack of Financial Support:

Lack of financial support is still another hindrance in the way of land reforms. No separate allocation of funds was made in the Five Year Plans for financing land reforms. Many- states declined to include even expenditure of such essential items like the preparation of survey, record in their plan budget. Thus, lack of adequate budget support in any form is largely responsible for the poor results of its implementation.

3. Lack of Integrated Approach:

Another reason for the failure of land reforms in India was the lack of integrated approach such as abolition of intermediary tenures, tenancy reforms and ceiling of holdings etc. They lack proper co-ordination in the programmes. It means that land reform programmes has been viewed in isolation from the mainstream of economic development programme.

4. Improper Implementation:

The responsibility for the implementation of land reforms rests with the revenue administration in almost all the states. To implement land reforms is only one among its many functions. On the other hand, high priority was allotted for the maintenance of public order collection of land revenue and other regulatory functions. Thus, land reforms do not get required attention.

5. Legal Hurdles:

Legal problems and constraints also stand in the way of implementation of land reforms in the country. The Task Force has specifically stated that, “Whatever little chance of success was there, has completely incorporated because of the loopholes in the laws and protracted litigation.” The land reform laws were defective in many ways; some loopholes were deliberately built in, while others were the results of poor drafting.

6. Lack of Pressure from Below:

The Task Force of Planning Commission has observed “except in few scattered and localized pockets, practically all over the country the poor peasants and agricultural workers are passive, un-organised and non co-operative.” The fundamental problem lies in the fact that the beneficiaries of land reforms do not constitute a homogeneous social or economic group. In such circumstances, it is little wonder that there has been no pressure from below for its effective implementation of land reforms.

7. Lack of Political Will:

The Task Force was of the view that there was lack of political will in the enactment of progressive measures of land reforms and their efficient implementation. Efficient implementation requires far hard political decisions and effective political support, direction and control. The Task Force has correctly pointed out “the task of political will is amply demonstrated by the large gaps between policy and legislation and between law and implementation.” Thus, it is admitted fact that political will is not forthcoming due to the existence of democratic political power structure of the country.

8. Indifferent Attitude of the Administration:

In all the states, the whole responsibility for the implementation or measures of land reforms is with the revenue administration. But it is a sorry state of affair that the attitude of the administrative staff is quite indifferent and even their behaviour is cold. Besides the village functionaries like patwaries, Karamcharies, Karnams, Sombogs etc. are largely under the influence of landlords. They have, in fact, proved non-co-operative.

13.7 Impact of the Land Reform Policy:

Land reforms are being attempted for two-fold reason:

to improve production and productivity and the distribution of income/asset. Land reform measures are costless methods of increasing production in the agricultural sector. It serves the purpose of social justice too. Let us see how far land reform measures have improved productive efficiency of the agricultural sector and ensured social justice.

i. On productive Efficiency:

So far as productive efficiency is concerned, the land reform measures adopted in recent years have not made any significant impact. The probable reason is that the reforms have not been effectively implemented.

The ownership of land has not yet been fully transferred to the tillers. The actual rents still rule high. The consolidation of holdings has not been completed. Cooperative farming has not made much headway. In the- absence of economical holding being in actual possession of the tiller, in which he has a permanent interest, the modern techniques cannot be applied to land. Naturally, productivity continues to be low.

ii. On Social Justice:

The objective of social justice has, however, been achieved to a considerable degree. The intermediary rights have been abolished. India no longer presents a picture of feudalism at the top and serfdom at the bottom. The tenancy laws have given the tillers protection from exploitation by providing them security of tenure and fixing maximum chargeable rents.

It is true that the pace of implementation of land reform measures has been slow. Moreover, there is a marked unevenness in respect of progress in various states. This does not, however, mean that there has been no achievement at all in the sphere of land reform since independence.

But the progress has been slow and it needs to be accelerated. The manifold problems of our land are to be solved through the introduction of a suitable land policy.

13.8 Summary

In this lesson we learnt about the land reforms. It may be defined as institutional changes that aim at changing the land relations favourable to the actual tiller of the land increasing the average farm size of the cultivators. Land reforms consist of two changes or reforms One is to reform the land relations between the owners and actual tillers of land and second is to change the average size of land holding so as to make it an economical variable unit. The objective of land reform s is to provide social justice to cultivators. The major steps adopted under the land reforms programme were 1) Abolition of intermediates 2) tendency reforms and 3) Reorganization of agriculture.

13.9 Exercise

Q1 What do you mean by the land reforms and give the measure of land reforms .?

Q2 What is the meaning of land reforms, and Causes of slow progress of land reforms in India.

Q3 Define the Land reforms and explain the objective and importance of land reforms in India.

13.10 Glossary

1) Consolidated of holdings : By consolidated of holding, we means bringing together one impact block scattered fragments of land of cultivator.

2) Land reforms- Land reform may be defined as institutional changes that aim at changing the land relations favourable to the actual tiller of land and increasing the average firm size of the cultivator.

13.11 Suggested Readings

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LESSON 14
GREEN REVOLUTION

Structure

14.0 objective

14.1 Introduction

14.2 Introduction of New Agricultural Strategy

14.3 Features of Green Revolution

14.4 Components of Green Revolution

14.5 Arguments in Favour of New Strategy in India

  14.5.1 Weaknesses of the New Strategy

14.6 Second Green Revolution in India

14.7 Summery

14.8 Glossary

14.9 Exercise

14.10 Suggested Readings

14.0 Objective

- Know about the green revolution
- Understanding the feature and components of green revolution

14.1 Introduction

The introduction of high-yielding varieties of Indian seeds after 1965 and the increased use of fertilizers and irrigation are known collectively as the Indian Green Revolution, which provided the increase in production needed to make India self-sufficient in food grains. The program was started with the help of the United States-based Rockefeller Foundation and was based on high-yielding varieties of wheat, rice, and other grains that had been developed in Mexico and in the Philippines. Of the high-yielding seeds, wheat produced the best results. Production of coarse grains–the staple diet of the poor–and pulses–the main source of protein–lagged behind, resulting in reduced per capita availability.

The total area under the high-yielding-varieties program was a negligible 1.9 million hectares in FY 1960. Since then growth has been spectacular, increasing to nearly 15.4 million hectares by FY 1970, 43.1 million hectares by FY 1980, and 63.9 million hectares by FY 1990. The rate of growth decreased significantly in the late 1980s, however, as additional suitable land was not available.

The major benefits of the Green Revolution in India were experienced mainly in northern and northwestern India between 1965 and the early 1980s; the program resulted in a substantial increase in the production of food grains, mainly wheat and rice.

Food-grain yields continued to increase throughout the 1980s, but the dramatic changes in the years between 1965 and 1980 were not duplicated. By FY 1980, almost 75 percent of the total cropped area under wheat was sown with high-yielding varieties. For rice the comparable figure was 45 percent. In the 1980s, the area under high-yielding varieties continued to increase, but the rate of growth overall was slower. The eighth plan aimed at making high-yielding varieties available to the whole country and developing more productive strains of other crops.

The Indian Green Revolution created wide regional and interstate disparities. The plan was implemented only in areas with assured supplies of water and the means to control it, large inputs of fertilizers, and adequate farm credit. These inputs were easily available in at least parts of the states of Punjab, Haryana, and western Uttar Pradesh; thus, yields increased most in these states. In other states, such as Andhra Pradesh and Tamil Nadu, in areas where these inputs were not assured, the results were limited or negligible, leading to considerable variation in crop yields within these states. The Green Revolution in India also increased income disparities: higher income growth and reduced incidence of poverty were found in the states where yields increased the most and lower income growth and little change in the incidence of poverty in other states.

Let us make in-depth study of the introduction, important features, arguments in favors, achievements and weaknesses of the New Agricultural Strategy-Green Revolution in India.

14.2 Introduction of New Agricultural Strategy:

The new agricultural strategy was adopted in India during the Third Plan, i.e., during 1960s. As suggested by the team of experts of the Ford Foundation in its report "India's Crisis of Food and Steps to Meet it" in 1959 the Government decided to shift the strategy followed in agricultural sector of the country. Thus, the traditional agricultural practices followed in India are gradually being replaced by modern technology and agricultural practices. This report afford Foundation suggested to introduce intensive effort for raising agricultural production and productivity in selected regions of the country through the introduction of modern inputs like fertilizers, credit, marketing facilities etc.

Accordingly, in 1960, from seven states seven districts were selected and the Government introduced a pilot project known as Intensive Area Development Programme (IADP) into those seven districts. Later on, this programme was extended to remaining states and one district from each state was selected for intensive development. Accordingly, in 1965, 144 districts (out of 325) were selected for intensive cultivation and the programme was renamed as Intensive Agricultural Areas Programme (IAAP). During the period of mid-1960s, Prof. Norman Borlaug of Mexico developed new high yielding varieties of wheat and accordingly various countries started to apply this new variety with much promise. Similarly, in the kharif season in 1966, India adopted High Yielding Varieties Programme (HYVP) for the first time.

This programme was adopted as a package programme as the very success of this programme depends upon adequate irrigation facilities, application of fertilizers, high yielding varieties of seeds, pesticides, insecticides etc. In this way a new technology was gradually adopted in Indian agriculture. This new strategy is also popularly known as modern agricultural technology or green revolution.

In the initial stage, HYVP alongwith IAAP was implemented in 1.89 million hectares of area. Gradually the coverage of the programme was enlarged and in 1995-96, total area covered by this HYVP programme was estimated 75.0 million hectares which accounted to nearly 43 per cent of the total net sown area of the country. As the new HYV seeds require shorter duration to grow thus it paved way for the introduction of multiple cropping, i.e., to have two or even three crops throughout the year. Farmers producing wheat in Punjab, Haryana, Western Uttar Pradesh, Rajasthan and Delhi started to demand heavily new Mexican varieties of seeds like Lerma Rojo, Sonara-64, Kalyan and PV.-18. But in case of production of rice, although new HYV varieties of seeds like TN.-l, ADT-17, Tinen-3 and IR-8 were applied but the result was not very much encouraging. Some degree of success was only achieved in respect of IR-8.

14.3 Features of Green Revolution:

The following are some of the important features of Green Revolution:

1. Revolutionary:

The Green revolution is considered as revolutionary in character as it is based on new technology, new ideas, new application of inputs like HYV seeds, fertilisers, irrigation water, pesticides etc. As all these were brought suddenly and spread quickly to attain dramatic results thus it is termed as revolution in green agriculture.

2. HYV Seeds:

The most important strategy followed in green revolution is the application of high yielding variety (HYV) seeds. Most of these HYV seeds are or dwarf variety (shorter stature) and matures in a shorter period of time and can be useful where sufficient and assured water supply is available. These seeds also require four to ten time more of fertilisers than that of traditional variety.

3. Confined to Wheat Revolution:

Green revolution has been largely confined to Wheat crop neglecting the other crops. Green revolution was first introduced to wheat cultivation in those areas where sample quantity of water was available throughout the year through irrigation. Presently 90 per cent of land engaged in wheat cultivation is benefitted from this new agricultural strategy. Most of the HYV seeds are related to wheat crop and major portion of chemical fertiliser are also used in wheat cultivation. Therefore, green revolution can be largely considered as wheat revolution.

4. Narrow Spread:

The area covered through green revolution was initially very narrow as it was very much confined to Punjab, Haryana and Western Uttar Pradesh only. It is only in recent years that coverage of green revolution is gradually being extended to other states like West Bengal, Assam, Kerala and other southern states.

14.4 Components of Green Revolution

There are various factors which contribute to the happening of Green revolution in Indian agriculture in the Fourth Five Year Plan. Some of the important components of the green revolution in India are as follows:

1. High Yielding Varieties (HYV) of seeds.
2. Irrigation (a) surface and (b) ground.
3. Use of fertilizers (chemical).
4. Use of Insecticides and Pesticides.
5. Command Area Development (CAD).
6. Consolidation of holdings.
7. Land reforms.
8. Supply of agricultural credit.
9. Rural electrification.
10. Rural Roads and Marketing.
11. Farm Mechanisation.
12. Agricultural Universities.

It must be noted that majority of the components do not act in isolation, rather they are closely inter-related and heavily dependent upon one another. For example, HYV seeds are highly responsive to use of fertilizers and are equally vulnerable to pest attacks and growth of useless weeds. Their full potential cannot be developed without the requisite supply of water.

The shorter maturing period enables the farmers to obtain more than one crop in a year from the same piece of land. This would require hastening of the harvesting operations so that land is quickly prepared for the second crop.

This will require mechanisation of farming. In order to make optimum use of the farm inputs, the farmer must know the why, where, what, when and how much of each for which there is ample scope.

1. High Yielding Varieties (HYV) of seeds:

The high yielding variety seeds are major input of agricultural production under the Green Revolution technology. Their main characteristic is increased responsiveness to chemical fertilizers, their period of maturing is short, it helps double cropping; their short stems can easily carry fertilizer load, resist wind damage, their large leaf surface helps the process of photosynthesis.

The H1* V seeds were perhaps the single most important input in the Indian Green Revolution. All other inputs were linked with HYV." M.S. Swaminathan has remarked that apart from erasing the 'begging bowl' image of our country, the most important gain has been the saving of forests and land, thanks to the productivity improvement associated with high yielding varieties.

The development of HYV seeds of wheat in 1960s and those of rice in 1969-70 laid the foundation for Green Revolution in India. Bandhu Das Sen has rightly remarked that they play the role of modernisers of agriculture like engines of change, capable of transforming a traditional farmer into a commercial producer. They act as part of steam engine (for industrial revolution) to ignite an agrarian revolution in poor countries.

Thus the HYV programme brought about a major change—a transformation affecting almost every aspect of Indian agriculture. In words of Dantwala, "widespread adoption of HYVs has helped to step up cereal production, stimulated investment and substantially increased the use of modem inputs."

National Seeds Corporation (NSC) was established in 1963. It undertakes the production of breeder seeds on its own farms and foundation and certified/quality seeds through contract growers, agricultural universities, state seeds corporations and state farms corporation of India.

Certified seed is t e ultimate stage in seed production chain and is the progeny of foundation seed. National Seeds Programme was launched in 1977 in collaboration with World Bank covering 9 states of Punjab, aryana, U.P., Bihar, Orissa, Maharashtra, Karnataka, Andhra Pradesh and Rajasthan. The production' distribution and utilization of quality seeds has been increasing since the beginning of Green Revolution.

2. Irrigation:

Irrigation is the second most important component of Green Revolution technology after HYV seeds. Assured and regular supply of sufficient water to crops not only adds to production it also assures stability in production. Indian rainfall being unreliable, irregular and seasonal, there is urgent need to expand irrigation potential to meet the requirements of the Green Revolution strategy Irrigation is a precondition for successful introduction of HYV seeds even in areas of heavy rainfall.

3. Use of Insecticides and Pesticides:

Though intensive use of irrigation and fertilizers under the Green Revolution technology has increased the farm production, it has also given birth to the problem of pests, insects, weeds, rodents, etc. The monoculture promoted by the Green Revolution technology is more vulnerable to the insects and pests.

These pets, weeds and diseases are to be checked by proper doses of insecticides, pesticides and weedicides surveillance should be an integral crop production. The first of Agriculture (1983-84), over million hectares of cropped area in the country is affected by various pests and diseases, taking an annual toll of 5 to 25 per cent of the agricultural production.

There has been a tremendous increase in the use of different types of biocides and in the area under plant protection. The regional distribution makes it clear that areas with Green Revolution technology are the main consumers of pesticides. For example, Punjab, Haryana, Andhra Pradesh and Tamil Nadu consumed over 55 per cent of the country's pesticides in 2003-04.

4. Command Area Development (CAD):

Command Area Development Programme is a centrally sponsored scheme which was launched in January 1975. Its aim was to bridge the gap between potential created and utilized in selected major/medium irrigation projects of the country for optimising agricultural production from the irrigated land. The programme covers the following components:

(i) On-farm development (OFD) works which include soil surveys, land shaping, construction of field channels, field drains, farm roads, realignment of field boundaries (where possible consolidation of holdings should also be combined), introduction of warabandi to ensure equitable and assured supply of water to each and every farm holding, supply of all inputs and services including credit and strengthening of extension services.

(ii) Selection and introduction of suitable cropping pattern

(iii) Development of groundwater to supplement surface water.

(iv) Development and maintenance of the main and intermediate drainage system

(v) Modernisation, maintenance and efficient operation of the irrigation system upon the outlet of one cusec capacity

The restructured programme which started from April 2004 is aimed at bringing about better water management practices and efficient utilisation of irrigation water which, inter-alia includes taking up corrective measures for rectification of deficiencies of delivery systems on the one hand and participation of water users in sharing the cost of works on the other. The Programme would cover 133 project commands with total Culturable Command Area of 1.7 million hectares. The work is already in progress.

5. Consolidation of Holdings:

Small and fragmented land holdings have been one of the main obstacles in the progress of agriculture in India. Consolidation of holdings has been introduced to solve this problem.

6. Land Reforms:

Immediately after the Independence, it was felt that land reforms must be brought in to improve the agricultural situation in the country. Absentee landlordism, tenancy-at-will and share cropping could not help in inculcating interest among the farmers to make investments in farm inputs and adopt new farm technology.

In 1947 half of India was under Zamindari System in which 80 per cent of the land was in the hands of the absentee landlords. The Zamindar used to exploit the farmers who used to till the land. Soon after Independence, the slogan of land to the tiller was raised and steps were taken for the abolition of the Zamindari. Consequently, tenants became owners of land.

They started taking interest and pains to increase the farm production. Raitwari system prevailed in Madras, Bombay, Assam and Punjab. Under this system the peasant was the owner of land and paid rent directly to the Government. The rent was usually half of the net produce.

A fixed amount of rent was to be paid irrespective of the condition of the crops. In the event of crop failure the peasant was obliged to pay rent by incurring debt against mortgage. Ultimately the land passed into the hands of the money lender who had no real interest in cultivation.

Mahotwari was another system in which a chosen peasant (Lambardar) was responsible for depositing the rent varying from 40 to 70 per cent of the produce. These systems were to be abolished in the interest of better agricultural performance. Another measure taken by the government was the enforcement of land ceiling act. Under this act a farmer cannot own more land than the ceiling limits. This resulted in the redistribution of surplus land which proved beneficial to lakhs of landless farmers. After obtaining the ownership rights, farmers worked whole-heartedly on their farms and this led to a tremendous increase in agricultural production. Dr. Randhawa has beautifully summed up the benefits of land reforms. According to him, A stable and restructured rural base with an equitable tenurial system paved the way to Green Revolution and can be accredited with its blooming to the present stage.

7. Supply of Agricultural Credit:

In the most crucial input in all agricultural developmental programmes. The other inputs viz., technology, HYV seeds, fertilizers, pesticides, irrigation water and machinery—all depend on the availability of credit. A large percentage of Indian farming community consists of small and marginal farmers who do not have their own resources to invest in agriculture. They depend upon agricultural credit to carry on most of their agricultural operations. Earlier they used to get loan from the moneylender who used to charge very high rate of interest. Now Cooperatives, Commercial Banks and Regional Rural Banks extend loans to farmers on easy terms.

8. Rural Electrification:

Rural electrification is one of the essential inputs in modem agricultural system. Studies made in 1970 showed the electricity makes a significant contribution to development of agriculture. It is a cheap source of energy which can be used for lifting water by tubewells/pump sets, processing and preserving agricultural produce, sprinkler irrigation and so many other farm operations. The development of ground water, so vital for Green Revolution, requires uninterrupted supply of electricity at cheaper rates.

Realizing the importance of electricity for the proper growth and development of agriculture, a massive programme of rural electrification was taken up immediately after Independence. At the time of Independence only 1,300 villages had been electrified and only 6,400 energised pump sets were working in the entire country.

At the end of the Fourth Five year Plan about 1, 55,297 villages had been electrified and there were 24 lakh pumpsets. Up to the end of the Seventh Five Year Plan 4, 70,836 villages were electrified and 83, 58,363 pump-sets had been energized.

As on 31 March, 2004,4,73,892 villages out of a total of 5, 87,556 villages (i.e. 86.25 per cent of the total villages) had been electrified and about 1, 40, 02,634 pump sets had been energised.

Haryana was the first state to electrify all its 6759 villages in 1970. Punjab, Kerala, Andhra Pradesh, Karnataka, Gujarat, Himachal Pradesh, Tamil Nadu, J and K, Maharashtra and Nagaland have 97 to 100 per cent villages electrified.

9. Rural Roads and Marketing:

They constitute an important segment of infrastructure to improve agricultural productivity under the Green Revolution programme. Rural roads are very essential for connecting the villages to the neighbouring markets and villages. Unfortunately, there is still a big gap between the requirement and availability of village roads. Road network upto town level is fairly satisfactory. The weakest point is that of rural roads.

Marketing is essential for progressive agriculture. Regulated markets enable the farmer to sell his agricultural produce and to purchase farm implements and tools, fertilizers, pesticides and other agricultural inputs as well as goods of everyday use. The farmer can go to the market with his produce, sell it and on his return journey he can bring the goods required for agriculture or in everyday life.

In this way the farmer can save on his return transport and avoid unnecessary waste of time, energy and money. Ideally speaking the market place should be within a distance of 5 km from the village. In the words of Leo E. Holman, “Marketing is the part and parcel of a modern productive process, the part at the end that gives point and purpose to all that had gone before. Benefits from mechanisation can be minimised if corresponding improvements are not made in the marketing system

10. Farm Mechanisation:

Much success of The Green Revolution depends upon farm mechani-sation. Mechanisation saves a lot of human labour and quickens the farm operations, thereby adding to the farm efficiency and productivity.

11. Agricultural Universities:

Agricultural universities and other agricultural institutes are primarily engaged in agricultural research and passing on the research findings to the farmers. A good deal of research and extension work done by these universities has paid rich dividends in the agricultural field. Success of Green Revolution largely depends upon the work done by these universities. Punjab, Haryana and Uttar Pradesh, are the best examples of such a progress.

14.5 Arguments in Favour of New Strategy in India:

The introduction of new agricultural strategy in India has certain arguments in its favour. These are as follows:

1) India being a vast agricultural country the adoption of intensive approach is the only way to make a breakthrough in the agricultural sector within the shortest possible time

2) considering the food crisis faced by the country during 1960s it was quite necessary to adopt this new strategy for meeting the growing requirement of food in our country.

3) as the introduction of HYVP programme has been able to raise the agricultural productivity significantly, thus this new agricultural strategy is economically justified.

4) as the agricultural inputs required for the adoption of new strategy is scarce thus it would be quite beneficial to adopt this strategy in a selective way only on some promising areas so as to reap maximum benefit from intensive cultivation.

5) adoption of new strategy has its spread effect. Reaping a good yield through HYVP would induce the other farmers to adopt this new technique. Thus due to its spread effect the overall productivity of Indian agriculture would rise.

6) increased agricultural productivity through the adoption of new strategy will have its secondary and tertiary effects. As the increased production of food through HYVP would reduce food imports and thus release scarce foreign exchange for other purposes.

Moreover, increased production of commercial crops would also lead to expansion of agro-based industries in the country, especially in the rural areas.

14.5.1 Weaknesses of the New Strategy:

The following are some of the basic weaknesses of new agricultural strategy:

(a) Adoption of new agricultural strategy through IADP and HYVP led to the growth of capitalist farming in Indian agriculture as the adoption of these programmes were very much restricted among the big farmers, necessitating a heavy amount of investment.

(b) The new agricultural strategy failed to recognise the need for institutional reforms in Indian agriculture.

(c) Green revolution has widened the disparity in income among the rural population.

(d) New agricultural strategy along-with increased mechanization of agriculture has created a problem of labour displacement.

(e) Green revolution widened the inter-regional disparities in farm production and income.

(f) Green revolution has certain undesirable social consequences arising from incapacitation due to accidents and acute poisoning from the use of pesticides.

14.6 Second Green Revolution in India:

Considering the limitations of first green revolution in India, the Government of India is now planning to introduce “Second Green Revolution” in the country with the objective of attaining food and nutritional security of the people while at the same time augmenting farm incomes and employment through this new approach.

This new approach would include introduction of “New Deal” to reverse decline in farm investment through increased funds for agricultural research, irrigation and wasteland development.

Prime Minister, Dr. Manmohan Singh while inaugurating the New Delhi office of International Food Policy Research Institute observed that, “Our government will be launching a National Horticulture Mission that is aimed, in part, at stimulating the second green revolution in the range of new crops and commodities.”

The Government is of the view that with more advances in science, and technology in areas such as biotechnology coming from the private sector, it was important to ensure availability of these products to the poor farmers.

Prime Minister Mr. Singh argued, “The challenge is how to encourage this creativity, this innovativeness and at the same time to ensure that new products and new processes will be far affordable for the vast majority of farmers who live on the edges of subsistence.”

Thus under the present circumstances, it can be rightly said that new cutting edge technologies should be taken to the fields for enhancing productivity to make agriculture sector of the country globally competitive.

While addressing at a national workshop on “Enhancing Competitiveness of Indian Agriculture” on 7th April, 2005 at New Delhi, Agriculture Minister Mr. Shared Power observed “There is a big challenge before us. We have to adopt new technologies and familiarize them to the farming community. With 60 per cent more arable land, India produces less than half the quantity of food grains grown by China.”

Even the Brazilian yields of black peppers, originally imported from India, are six times higher than India utilizing the same variety. This simply shows that India is lagging far behind in raising productivity of agriculture.

The Economic Survey, 2006-07 while pointing out the weaknesses of agriculture in India observed, “The Structural Weaknesses of the agriculture sector reflected in low level of public investment, exhaustion of the yield potential of new high yielding varieties of wheat and rice, unbalanced fertilizer use, low seeds replacement rate, an inadequate incentive system and post harvest value addition were manifest in the lackluster agricultural growth during the new millennium.”

The Economic Survey, 2006-07 further observes, “The urgent need for taking agriculture to a higher trajectory of 4 per cent annual growth can be met only with improvement in the scale as well as quality of agricultural reforms undertaken by the various states and agencies at the various levels. These reforms must aim at efficient use of resources and conservation of soil, water and ecology on a sustainable basis and in a holistic framework. Such a holistic framework must incorporate financing of rural infrastructure such as water, roads and power.”

It is also true that today unfortunately the green revolution is a distant memory and its impact has also certainly ebbed. Therefore, it is essential to revisit the problems of the agricultural sector and address the cry of anguish that we hear from farmers from different directions of the country.

There is a strong argument for high agricultural investment, especially irrigation, which has large externalities even if it requires a scaling down of other subsidies and reordering the priorities.

14.7 Summery

In this lesson we learn about the green revolution. The increased use of fertilizers and irrigation are known collectively as the Indian Green Revolution, which provided the increase in production needed to make India self-sufficient in food grains . Of the high-yielding seeds, wheat produced the best results. Production of coarse grains–the staple diet of the poor–and pulses–the main s **There** are various factors which contribute to the happening of Green revolution in Indian agriculture source of protein–lagged behind, resulting in reduced per capita availability, High Yielding Varieties (HYV) of seeds., Irrigation (a) surface and (b) ground, Use of fertilizers (chemical), Use of Insecticides and Pesticides, Command Area Development (CAD), Consolidation of holdings ,Land reforms, Supply of agricultural credit,Rural electrification, Rural Roads and Marketing, Farm Mechanisation and Agricultural Universities.

14.8 Glossary

- **Green revolution**- the increased use of fertilizers and irrigation are known collectively as the Indian Green Revolution, which provided the increase in production needed to make India self-sufficient in food grains.
- **Second Green Revolution**- in the country with the objective of attaining food and nutritional security of the people while at the same time augmenting farm incomes and employment through this new approach.

14.9 Exercise

Q1 what do mean by green revolution?

Q2 Explain the components of green revolution?

Q3 what is features of green revolution?

Q4 What is new agriculture strategy in India ?

14.10 Suggested Readings

- Uma, Kalpa (2008),'Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.
- Prakesh, B.A.(2009),' Indian Economy Since 1991: Economic Reforms And Performance. Sage Publication New Delhi.
- Misra and Puri, Indian Economy, Himalayan Publication House, New Delhi.
- Ruddar Dutt and KPM Sundhram, Indian Economy, S. Chand and Co. New Delhi.

- Basu, Kaushik (2010); The Oxford Companion to Economics in India, Oxford University, Press New Delhi.
- Gokarn, Subiret al, (2004): The Structure of Indian Industry, Oxford University Press, New Delhi.

LESSON -15

AGRICULTURE: SUBSIDIES AND RELATED ISSUES

Structure

15.0 objective

15.1 Introduction

15.2 Input of subsidies

15.2.1 Seeds

15.2.2 Genetically modified Verity

15.2.3 Power and water for agriculture

15.2.4 Irrigation

15.3 Major problems in Indian agriculture

15.4 Summary

15.5 Exercise

15.6 Suggested Readings

15.1 Introduction

Agriculture sector is undoubtedly most important sector of Indian economy as it provides employment to 54.6% of people and food security of India revolves around this sector. Its importance can be gauged by the fact that whenever there is fear of deficit monsoon, whole of the population ranging from farmers, workers, businessmen, policy makers and even foreign investors are caught into nervousness. Because of dependence of disproportionate population on this sector, Indian economy can be still said to be an agrarian economy. However, sector is largely state controlled which resulted in widespread inefficiencies and distortions.

Sector has been growing appreciably at least 4% from last few years (with some exceptions) and last year's growth was record 4.7%. But this is no reason for rejoice as our farmers and agricultural sector are still quite vulnerable and growth is on back of interventions which has given us a skewed agricultural basket. Primary reason for this growth is said to be good monsoons and growing crop incentives under schemes like Minimum Selling Price (MSP). Share of agriculture in economy remains stagnant at 13.9%. This is an indicator that people dependent upon agriculture are still unable to make a decent earning. From very beginning agriculture has been at centre of government policy, but sector was recognized as prime moving force only in 2002. It actually started at the time of World War 2, when food shortages were severe. Later Public distribution System was developed during time of great Bengal Famine which killed about 2 million people. Ultimately government control got strengthened by appointment 'Commission for Agriculture' and formation of 'Food Corporation of India' in 1960's. Former's role was to recommend prices for government procurement of different crops and latter's function ranged from procurement, storage and issue of food grains.

During this time India was heavily dependent upon foreign food aid which compromised India's sovereignty over crucial matters. It was at this time realized that, apart from building structure for storage and distribution, self-sufficiency in production of food grains is imperative. It resulted in huge investments in agriculture productivity, through the means of hybrid seeds, Chemical Fertilizers, Pesticides and irrigation infrastructure. This came to known as Green Revolution. Green revolution, overtime, yielded impressive results and in coming decades India was self-sufficient in food grain production and achieved physical food security. However, it didn't give Indian people economic food security and food security is still a big challenge. Costly inputs and MSP regimes regularly pushed up prices and rendered them unaffordable to the poor. It all culminated into a confusing situation where on one hand there were bumper productions and excessive food grains with FCI, on the other hand millions were living under starvation. This was mainly because laws, regulations, institutions which were brought into existence in face of scarcity, largely continued even at the time of abundance. End result is uncompetitive agriculture sector, reeling under debt which can't survive without heavy government support. All this left us with vulnerable farmers and people and an underperforming economy.

15.2 Input of Subsidies

Subsidies on inputs have their root in Green revolution. That time extensive subsidies were given on Hybrid seeds, Fertilizers, pesticides etc. main aim of subsidies are two – one is to keep cost of the food grains at minimum and avoiding food inflation, second is to ensure income security of the farmer. While this policy has helped a lot to secure food sufficiency, yet it has many unintended negative impacts. It results in overuse of inputs as inputs costs doesn't represent adequate market costs, farmers are unable to respond to market signals. They continue to use skewed mix of inputs as costs are borne by government.

15.2.1 Seeds

Many schemes such Rashtriya Krishi Vikas Yojna, Macro Management Agriculture, Integrated Scheme for oilseeds, pulses, oil palm and maize (ISOPOM); Technology missions for cotton, National food security Mission etc. provide for subsidized seeds. Some of them also provide incentives for investment in Seed manufacturing infrastructure and upgradations.

New Policy on Seed Development (NPSD) includes permitting 100 per cent foreign direct investment (FDI) under the automatic route. The thrust is also on creating a seed bank. There are three stages in seed production cycle. At first stage Breeder seeds are developed by 'Indian Council of Agricultural Research' (ICAR), National Seeds Corporation or state farms corporations. In second stage Foundation Seeds are developed by NSC, SFCs or State seeds corporations and then finally Certified Seeds are produced and distributed to all farmers. Certification is done by state agricultural universities or private organizations authorized by 'Indian Council of Agricultural Research' Hybrid seeds Hybrid seeds are obtained by cross pollination of different varieties of related plants. These seeds were instrumental in green revolution.

These seeds combine desirable properties of two related plants. Using a method of controlled crossing devised by Charles Darwin and Gregor Mendel in the mid-19th century, plant breeders can now produce seed that combines the desired traits of two pure parent lines in the first generation itself.

One drawback was that these seeds don't regenerate seeds of same quality. So every time farmers have to buy new seeds. In case of conventional seeds, farmers could use reproduced seeds by current crop. In that sense hybrid seeds pushed up Input costs for the farmers and multinational companies like Cargill Inc. established their monopoly over the market. Now there is growing clamour both for and against genetically modified variety of seeds. Its supporters believe that it can get world rid of starvation, whereas opponents fear negative effects on environment, biodiversity and health.

15.2.2 Genetically Modified Verity

These varieties of seeds are developed in laboratories by genetic engineering technologies. In these technologies genes of different species of organisms (like bacteria genes with plants) are integrated to modify DNA to get desired characteristic. Bacteria named bacillus Thuringiensis gives a gene that is incorporated into plant's DNA and we get Genetically Modified Organisms like BT- corn, BT- cotton, Bt- Brinjal etc. This plant will be protected from pests and will give increased yields. In USA GM crops are allowed and contribute about 85% of the consumption, whereas in Europe it is largely banned as of now. In India, it is allowed for commercial production of cotton and for food crops field trials are going on.

In 2013 Supreme Court in response to a PIL appointed a Technical Expert Committee for considering whether trials should be allowed or not. TEC recommended that there should be moratorium on trials until proper regulatory and safety mechanisms are put in place, and BT crops are approved for their long term safety. Notwithstanding this government allowed trials for some crops, as SC didn't pass any order in this relation.

Main concern of the farmer community is that, Companies like Monsanto will exploit their monopolies as seeds are expensive and are not regenerative. Recently GMO cotton seeds supplied by Mahyco, (a GM seed company which has joint venture with Monsanto), resulted in a crop failure which brought suffering to farmers.

National Seed corporations

It is Miniratna Company under Ministry of agriculture formed in 1963 to produce **foundation seeds and undertake certification activities**. It has central role in development of seed industry in India. Various schemes such as ISOPOM, NFSM and National Horticulture Mission are implemented (partly or fully) under NSC. It is also involved in export of seeds, especially to SAARC nations and African countries.

It maintains a SAARC seed bank in which large quantities of various seeds are kept as inventory so that shortage due to any natural calamity or otherwise could be tackled.

1 Fertilizer and Manure

Fertilizers are any organic/inorganic, natural/synthetic material used in soil to supplement it with plant nutrients which are essential for plant's growth. Fertilizers were another most important part of green revolution. Some points to be noted are –

1) In India per hectare Consumption around (around 146 Kg) is far lower than developed countries.

2) Indian Soils are deficient in Nitrogen and Phosphorus

3) Fertilizer can most effectively be used with ample water. So rainfed areas (deprived of irrigation) constitute 70 % of agricultural land and still they use only 20% of national Fertilizers consumption. On other hand Rabi crops are dominantly produced in Irrigated areas, so they consume about 66% of fertilizers while their share of total agri output is 33%

4) Due to rising prices of fertilizers government is promoting organic farming and organic manure.

5) India meets its 80 % requirement of Urea (N), while it is heavily dependent on Imports for its potassium (K) and phosphorus (P) fertilizer requirements.

Fertilizers are made through industrial processes in which composition of nutrients is precise and deliberately fixed. In contrast Manure is derived animal waste such as cattle dung and urine. It enriches the soil generally. Further, presence of manure makes fertilizers even more effective.

Macronutrient and micronutrient

Plants or crops needs about 17 essential elements to survive and grow. If any of these elements is deficient, then growth will be stalled or plant will die. Among these elements, N, P, Calcium, Magnesium and Sulfur are required in comparative large quantities and termed as macro nutrients. Other elements such as Boron, Chlorine, Copper, Iron, Manganese, Molybdenum, Zinc and Nickel are needed in smaller quantities hence termed as micronutrients. Macronutrient based fertilizers are dominant and its use enhances capability of plants to extract more micronutrients from soil.

Nitrogen – is responsible for green leafy growth and overall plant health. Its Necessary for Photosynthesis to take place. Deficiency will result in yellow leaves and weak plant.

Phosphorous – Is necessary for root, flower and fruit development.

Potassium – Plant health and vigour. It helps plant to fight diseases and pests. It also gives strong cell walls

Nurtitant based subsidy

This was introduced in 2010 with objective to promote balanced use of fertilizers and to limit fertilizer subsidy of the government. Idea was to fix subsidy as per nutrients (in per Kg) in the fertilizer and leave the determination of price to suppliers. Presently Urea is not covered under the scheme due to political compulsions. Consequently subsidized price of Urea remained stagnant even when real costs of production have risen significantly. On the other hand Potassium and Phosphorous are covered under the scheme and a fixed subsidy as per content of nutrients is given to suppliers and they change Maximum Retail Price as per market signals. Secondary and Micronutrients are also covered under the scheme.

This additional use of urea doesn't give any additional benefit to the farmer. Instead this can degrade soil and harm crop. Productivity and quality of a crop depends upon use of diversified mix of macro and micronutrients, which vary from soil to soil.

The Economic survey notes that while urea consumption has increased from 59 per cent to 66 per cent of total consumption in 2012-13 over 2010-11, per hectare consumption of fertilizer has declined from 140 kg to 128 kg over the same period. Fertilizer subsidy was `67,971 crore in 2013-14, an increase of 11 per cent over 2009-10. Large part of this went to production and consumption of urea that was not needed at all. Also, due to excessive use of fertilizers groundwater is also getting polluted and chemical bio accumulation problem is impacting health of people. In Punjab and Haryana, problem is rampant and ground water is found to be polluted with arsenic, uranium, fluoride etc.

Indian Agriculture Industry

Indian fertilizer industry has made good progress in case of Nitrogen based fertilizers. India is 3rd largest producer of urea after China and USA. Productions largely state controlled. Popular PSUs are The Fertilizer Corporation of India ltd, National fertilizers Limited, Hindustan Fertilizer Corporation Ltd. etc. Main raw material used by industry is Naphtha (by product of petroleum), Rock phosphate, Sulfur gypsum and natural/smelter gasses. In absence of natural gas, coking coal or coke can be used. Hence most of the plants are near petroleum refineries, coal mines or sea coasts

15.2.3 Power and water for agriculture

Farmers get highly subsidized or free electricity for agricultural purposes. Electricity is mainly consumed in pumping out underground water. As 70 % of countries agricultural land is Rainfed electricity becomes main input in agricultural produce. However subsidized and ample electricity has resulted in indiscriminate use of electricity by the farmers, which results in massive wastage of electricity and water. In fact this is main reason behind depleting ground water. It also provides avenues for pilferage and theft of electricity.

Separation of seed

Feeder is an electrical cable or group of electrical conductors that runs power from a 'larger central source' to one or more secondary or branch-circuit distribution centers(to end user). We have yet common feeder lines for agricultural and other sectors in all states except Gujrat.

In Gujrat Jyotigram Yojna was initiated in 2006, which separated agricultural feeders from main feeder. Agricultural feeder supply was regulated and power is given only for 8-10 hours per day. Timings of powers are pre declared to the farmers. On the main feeder power is supplied full time. This development has two fold benefits; one is surplus electricity for industry and civilians and second is it arrested rapid depletion of ground water. Result is Gujrat has surplus power of 2000 MW (out of total capacity of 14000 MW) which is sold to other states. Success of this scheme was recognized by planning commission and it was made central to power reforms under 12th five year plan.

New scheme **Pandit Deendayal Upadhyaya Gram Jyoti Yojna**, aims for separation of feeders at national level. It is first to be rolled out in Rajasthan and Andhra Pradesh. Scheme would be merged with 'Integrated Power Development Scheme', which aims at improving India's sub-transmission and distribution network.

15.2.4 Irrigation

Although India is the second largest irrigated country of the world after China, only one-third of the cropped area is under irrigation. Irrigation is the most important agricultural input in a tropical monsoon country like India where rainfall is uncertain, unreliable and erratic India cannot achieve sustained progress in agriculture unless and until more than half of the cropped area is brought under assured irrigation.

This is testified by the success story of agricultural progress in Punjab Haryana and western part of Uttar Pradesh where over half of the cropped area is under irrigation! Large tracts still await irrigation to boost the agricultural output. However, care must be taken to safeguard against ill effects of over irrigation especially in areas irrigated by canals. Large tracts in Punjab and Haryana have been rendered useless (areas affected by salinity, alkalinity and water-logging), due to faulty irrigation. In the Indira Gandhi Canal command area also intensive irrigation has led to sharp rise in sub-soil water level, leading to water-logging, soil salinity and alkalinity.

15.3 Major Problems in Indian Agriculture

Some of the major problems and their possible solutions have been discussed as follows. Indian agriculture is plagued by several problems; some of them are natural and some others are manmade.

1. Small and fragmented land-holdings:

The seemingly abundance of net sown area of 141.2 million hectares and total cropped area of 189.7 million hectares (1999-2000) pales into insignificance when we see that it is divided into economically unviable small and scattered holdings. The average size of holdings was 2.28 hectares in 1970-71 which was reduced to 1.82 hectares in 1980-81 and 1.50 hectares in 1995-96. The size of the holdings will further decrease with the infinite Sub-division of the land holdings.

The problem of small and fragmented holdings is more serious in densely populated and intensively cultivated states like Kerala, West Bengal, Bihar and eastern part of Uttar Pradesh where the average size of land holdings is less than one hectare and in certain parts it is less than even 0.5 hectare. Rajasthan with vast sandy stretches and Nagaland with the prevailing 'Jhoom' (shifting agriculture) have larger average sized holdings of 4 and 7.15 hectares respectively. States having high percentage of net sown area like Punjab, Haryana, Maharashtra, Gujarat, Karnataka and Madhya Pradesh have holding size above the national average.

Further it is shocking to note that a large proportion of 59 per cent holdings in 1990- 91 were marginal (below 1 hectare) accounting for 14.9 per cent of the total operated area. Another 19 per cent were small holdings (1-2 hectare) taking up 17.3 per cent of the total operated area.Large holdings (above 10 hectare) accounted for only 1.6 per cent of total holdings but covered 17.4 per cent of the operated area (Table 22.1). Hence, there is a wide gap between small farmers, medium farmers (peasant group) and big farmers (landlords).

The main reason for this sad state of affairs is our inheritance laws. The land belonging to the father is equally distributed among his sons. This distribution of land does not entail a collection or consolidated one, but its nature is fragmented.Different tracts have different levels of fertility and are to be distributed accordingly. If there are four tracts which are to be distributed between two sons, both the sons will get smaller plots of each land tract. In this way the holdings become smaller and more fragmented with each passing generation.

Sub-division and fragmentation of the holdings is one of the main causes of our low agricultural productivity and backward state of our agriculture. A lot of time and labour is wasted in moving seeds, manure, implements and cattle from one piece of land to another.

Irrigation becomes difficult on such small and fragmented fields. Further, a lot of fertile agricultural land is wasted in providing boundaries. Under such circumstances, the farmer cannot concentrate on improvement. The only answer to this ticklish problem is the consolidation of holdings which means the reallocation of holdings which are fragmented, the creation of farms which comprise only one or a few parcels in place of multitude of patches formerly in the possession of each peasant.

But unfortunately, this plan has not succeeded much. Although legislation for consolidation of holdings has been enacted by almost all the states, it has been implemented only in Punjab, Haryana and in some parts of Uttar Pradesh. Consolidation of about 45 million holdings has been done till 1990-91 in Punjab, Haryana and western Uttar Pradesh. The other solution to this problem is cooperative farming in which the farmers pool their resources and share the profit.

2. Seeds:

Seed is a critical and basic input for attaining higher crop yields and sustained growth in agricultural production. Distribution of assured quality seed is as critical as the production of such seeds. Unfortunately, good quality seeds are out of reach of the majority of farmers, especially small and marginal farmers mainly because of exorbitant prices of better seed In order to solve this problem, the Government of India established the National Seeds Corporation (NSC) in 1963 and the State Farmers Corporation of

India (SFCI) in 1969. Thirteen State Seed Corporations (SSCs) were also established to augment the supply of improved seeds to the farmers.

High Yielding Variety Programme (HYVP) was launched in 1966-67 as a major thrust plan to increase the production of food grains in the country.

The Indian seed industry had exhibited impressive growth in the past and is expected to provide further potential for growth in agricultural production: The role of seed industry is not only to produce adequate quantity of quality seeds but also to achieve varietal diversity to suit various agro-climatic zones of the country. The policy statements are designed towards making available to the Indian farmer, adequate quantities of seed of superior quality at the appropriate time and place and at an affordable price so as to meet the country's food and nutritional security goals.

Indian seeds programme largely adheres to limited generation system for seed multiplication. The system recognises three kinds of generation, namely breeder, foundation and certified seeds. Breeder seed is the basic seed and first stage in seed production. Foundation seed is the second stage in seed production chain and is the progeny of breeder seed. Certified seed is the ultimate stage in seed production chain and is the progeny of foundation seed. Production of breeder and foundation seeds and certified seeds distribution have gone up at an annual average rate of 3.4 per cent, 7.5 per cent and 9.5 per cent respectively, between 2001-02 and 2005-06).

3. Manures, Fertilizers and Biocides:

Indian soils have been used for growing crops over thousands of years without caring much for replenishing. This has led to depletion and exhaustion of soils resulting in their low productivity. The average yields of almost all the crops are among t e lowest in the world. This is a serious problem which can be solved by using more manures and fertilizers. Manures and fertilizers play the same role in relation to soils as good food in relation to body. Just as a well-nourished body is capable of doing any good job, a well nourished soil is capable of giving good yields. It has been estimated that about 70 per cent of growth in agricultural production can be attributed to increased fertilizer application.

Thus increase in the consumption of fertilizers is a barometer of agricultural prosperity. However, there are practical difficulties in providing sufficient manures and fertilizers in all parts of a country of India's dimensions inhabited by poor peasants. Cow dung provides the best manure to the soils. But its use as such is limited because much of cow dung is used as kitchen fuel in the shape of dung cakes. Reduction in the supply of fire wood and increasing demand for fuel in the rural areas due to increase in population has further complicated the problem. Chemical fertilizers are costly and are often beyond the reach of the poor farmers. The fertilizer problem is, therefore, both acute and complex.

It has been felt that organic manures are essential for keeping the soil in good health. The country has a potential of 650 million tonnes of rural and 160 lakh tonnes of urban compost which is not fully utilized at present. The utilization of this potential will solve the twin problem of disposal of waste and providing manure to the soil.

The government has given high incentive especially in the form of heavy subsidy for using chemical fertilizers. There was practically no use of chemical fertilizers at the time of Independence As a result of initiative by the government and due to change in the attitude of some progressive farmers, the consumption of fertilizers increased tremendously. In order to maintain the quality of the fertilizers, 52 fertilizer quality control laboratories have been set up in different parts of the country. In addition, there is one Central Fertilizer Quality Control and Training Institute at Faridabad with its three regional centres at Mumbai, Kolkata and Chennai.

Pests, germs and weeds cause heavy loss to crops which amounted to about one third of the total field produce at the time of Independence. Biocides (pesticides, herbicides and weedicides) are used to save the crops and to avoid losses. The increased use of these inputs has saved a lot of crops, especially the food crops from unnecessary wastage. But indiscriminate use of biocides has resulted in wide spread environmental pollution which takes its own toll.

4. Irrigation:

Although India is the second largest irrigated country of the world after China, only one-third of the cropped area is under irrigation. Irrigation is the most important agricultural input in a tropical monsoon country like India where rainfall is uncertain, unreliable and erratic India cannot achieve sustained progress in agriculture unless and until more than half of the cropped area is brought under assured irrigation.

This is testified by the success story of agricultural progress in Punjab Haryana and western part of Uttar Pradesh where over half of the cropped area is under irrigation! Large tracts still await irrigation to boost the agricultural output. However, care must be taken to safeguard against ill effects of over irrigation especially in areas irrigated by canals. Large tracts in Punjab and Haryana have been rendered useless (areas affected by salinity, alkalinity and water-logging), due to faulty irrigation. In the Indira Gandhi Canal command area also intensive irrigation has led to sharp rise in sub-soil water level, leading to water-logging, soil salinity and alkalinity.

5. Lack of mechanisation:

In spite of the large scale mechanisation of agriculture in some parts of the country, most of the agricultural operations in larger parts are carried on by human hand using simple and conventional tools and implements like wooden plough, sickle, etc. Little or no use of machines is made in ploughing, sowing, irrigating, thinning and pruning, weeding, harvesting threshing and transporting the crops. This is specially the case with small and marginal farmers. It results in huge wastage of human labour and in low yields per capita labour force.

There is urgent need to mechanise the agricultural operations so that wastage of labour force is avoided and farming is made convenient and efficient. Agricultural implements and machinery are a crucial input for efficient and timely agricultural operations, facilitating multiple cropping and thereby increasing production.

Some progress has been made for mechanising agriculture in India after Independence. Need for mechanisation was specially felt with the advent of Green

Revolution in 1960s. Strategies and programmes have been directed towards replacement of traditional and inefficient implements by improved ones, enabling the farmer to own tractors, power tillers, harvesters and other machines. A large industrial base for manufacturing of the agricultural machines has also been developed. Power availability for carrying out various agricultural operations has been increased to reach a level of 14 kW per hectare in 2003-04 from only 0.3 kW per hectare in 1971-72. This increase was the result of increasing use of tractor, power tillerand combine harvesters, irrigation pumps and other power operated machines. The share of mechanical and electrical power has increased from 40 per cent in 1971 to 84 per cent in 2003-04.

Uttar Pradesh recorded the highest average sales of tractors during the five year period ending 2003-04 and/West Bengal recorded the highest average sales of power tillers during the same period. Strenuous efforts are being made to encourage the farmers to adopt technically advanced agricultural equipments in order to carry farm operations timely and precisely and to economise the agricultural production process.

6. Soil erosion:

Large tracts of fertile land suffer from soil erosion by wind and water. This area must be properly treated and restored to its original fertility.

7. Agricultural Marketing:

Agricultural marketing still continues to be in a bad shape in rural India. In the absence of sound marketing facilities, the farmers have to depend upon local traders and middlemen for the disposal of their farm produce which is sold at throw-away price. In most cases, these farmers are forced, under socio-economic conditions, to carry on distress sale of their produce. In most of small villages, the farmers sell their produce to the money lender from whom they usually borrow money. According to an estimate 85 per cent of wheat and 75 per cent of oil seeds in Uttar Pradesh, 90 per cent of Jute in West Bengal, 70 per cent of oilseeds and 35 per cent of cotton in Punjab is sold by farmers in the village itself. Such a situation arises due to the inability of the poor farmers to wait for long after harvesting their crops.

In order to meet his commitments and pay his debt, the poor farmer is forced to sell the produce at whatever price is offered to him. The Rural Credit Survey Report rightly remarked that the producers in general sell their produce at an unfavourable place and at an unfavourable time and usually they get unfavourable terms. In the absence of an organised marketing structure, private traders and middlemen dominate the marketing and trading of agricultural produce. The remuneration of the services provided by the middlemen increases the load on the consumer, although the producer does not derive similar benefit.

Many market surveys have revealed that middlemen take away about 48 per cent of the price of rice, 52 per cent of the price of groundnuts and 60 per cent of the price of potatoes offered by consumers.

In order to save the farmer from the clutches of the money lenders and the middle men, the government has come out with regulated markets. These markets generally introduce a system of competitive buying, help in eradicating malpractices, ensure the use of standardised weights and measures and evolve suitable machinery for settlement of disputes thereby ensuring that the producers are not subjected to exploitation and receive remunerative prices.

8. Inadequate storage facilities:

Storage facilities in the rural areas are either totally absent or grossly inadequate. Under such conditions the farmers are compelled to sell their produce immediately after the harvest at the prevailing market prices which are bound to be low. Such distress sale deprives the farmers of their legitimate income. The Parse Committee estimated the post-harvest losses at 9.3 per cent of which nearly 6.6 per cent occurred due to poor storage conditions alone. Scientific storage is, therefore, very essential to avoid losses and to benefit the farmers and the consumers alike.

At present there are number of agencies engaged in warehousing and storage activities. The Food Corporation of India (F.C.I.), the Central Warehousing Corporation (C.W.C.) and State Warehousing Corporation are among the principal agencies engaged in this task. These agencies help in building up buffer stock, which can be used in the hour of need. The Central Government is also implementing the scheme for establishment of national Grid of Rural Godowns since 1979-80.

This scheme provides storage facilities to the farmers near their fields and in particular to the small and marginal farmers. The Working Group on additional storage facilities in rural areas has recommended a scheme of establishing a network of Rural Storage Centres to serve the economic interests of the farming community.

9. Inadequate transport:

One of the main handicaps with Indian agriculture is the lack of cheap and efficient means of transportation. Even at present there are lakhs of villages which are not well connected with main roads or with market centres. Most roads in the rural areas are Kutcha (bullock- cart roads) and become useless in the rainy season. Under these circumstances the farmers cannot carry their produce to the main market and are forced to sell it in the local market at low price. Linking each village by metalled road is a gigantic task and it needs huge sums of money to complete this task.

15.4 Summary

In this chapter we know about the Problems of Indian agriculture .The problem of small and fragmented holdings is more serious in densely populated and intensively cultivated states like Kerala, West Bengal, Bihar and eastern part of Uttar Pradesh where the average size of land holdings is less than one hectare. Indian economy can be still said to be an agrarian economy. However, sector is largely state controlled which resulted in widespread inefficiencies and distortions.

15.5 Exercise

Q 1 Explain the major problem of Indian agriculture?

Q2 Explain the irrigation and fertalizer problem of agriculture in Indian economy?

15.6 Suggested Readings

- Uma, Kalpa (2008),'Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.
- Prakesh, B.A.(2009),' Indian Economy Since 1991: Economic Reforms And Performance. Sage Publication New Delhi.
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- Ruddar Dutt and KPM Sundhram, Indian Economy, S. Chand and Co. New Delhi.
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- Gokarn, Subiret al, (2004): The Structure of Indian Industry, Oxford University Press, New Delhi.

LESSON -16

EMERGING TRENDS IN INDIAN AGRICULTURE

Structure

16.0 objective

16.1 Introduction

16.2 Trends in Indian agriculture as a result of liberalisation.

16.3 Summery

16.4 Exercise

16.5 Suggested Readings

16.0 Objectives

- Understand about the liberalization
- Know about the trends in agriculture that result of liberlizatrion

16.1 Introduction

India with its rising population is in an advantageous position to develop its agricultural and allied sectors which arc mostly labour intensive. Liberalisation has provided ample scope for the modernization and development of the agricultural sector and also to reap the maximum benefit from the increasing scope of agricultural exports arising out of the path of globalisation adopted by the economy.

16.2 Trends in Indian agriculture as a result of liberalisation.

1. Raising the Production of Food grains:

India has been experiencing the increase in the production of food grains particularly after the introduction of new agricultural strategy (i.e., Green Revolution) in agricultural practices. Annual growth rate of 2.08 per cent was recorded during 1970s. Annual growth rate of 3.5 per cent in food grains in 1980s is the hallmark of the green revolution that enabled India to become self sufficient in food grains and even a marginal exporter. The decade of 1990s could not maintain this pace and annual growth rate has fallen to 1.7 per cent which is just about equal to annual population growth. Total production of food grains has increased from 176.39 million tonnes in 1990-91 to 233.9 million tonnes in 2008-09. With the increase in size of population and increase in income, the demand for food grains is likely to rise in near future.

As per the estimate it is found that by 2010, the demand for food grains is likely to rise at the rate of 2.6 per cent. In the year 2015-16 (275.1 million tonnes) estimate of food grain production. If the country can maintain 4 per cent growth rate in agricultural production then after meeting its domestic demand, the country can export the surplus amount of food grains to the foreign countries in which it has favourable position.

2. Diversification of Agriculture:

Agriculture is not only meeting the demand for food grains but also other needs of development. In recent years, agricultural sector has been diversified to produce commercial crops and horticultural crops viz., fruits, vegetables, spices, cashew, areca nut, coconut and floricultural products like flowers, orchids etc.. dairy and other animal husbandry products. The demand for these products has also been increasing. Liberalisation of the economy has created ample scope for the development of agricultural sector both in terms of increased production and trade.

3. Increasing Trend in Horticultural Output:

The diversity of physiographic, climate and soil characteristics enables India to grow a large variety of horticultural crops which includes fruits, vegetables, spices, cashew-nut, coconut, cocoa, areca-nut, root and tuber crops, medicinal and aromatic plants etc. India is the largest producer of fruits, and second largest producer of vegetables. Total production of fruits has increased from 29.0 million tonnes in 1990-91 to 63.5 million tonnes in 2007- 08. Total production of vegetables has increased from 67.29 million tonnes in 1994-95 to 125.9 million tonnes in 2007-08. India is the largest producer of cashew. Total production of cashew has increased from 3.7 lakh tonnes in 1991-92 to 6.0 lakh tonnes in 2003-04. With the increase in the production of fruits, vegetables and other horticultural products, the value of exports of these products is also increasing. Total value of exports of fruits, vegetables and pulses has increased from Rs. 216 crore in 1990-91 to Rs. 5,650 crore in 2008-09. India is likely to record highest ever production of horticulture produce, including fruits and vegetables, in 2016-17. The total production is estimated at 295 million tonnes which is 3.2 % higher than the production in 2015-16.

4. Increase in Floricultural Output:

Presently about 31,000 hectares of land spread over Karnataka, Tamil Nadu, Andhra Pradesh and West Bengal are under flower production. Since the inception of liberalisation, commercial farming of floricultural activities has been increasing gradually. The demand for Indian cut flower is increasing continuously in the international market. Total value of exports of cut flowers has increased from Rs. 28.7 crore in 1994-95 to Rs. 96.6 crore in 1998-99. Under the liberalized regime, India is having a wide prospect of export of floricultural products in near future, which is expected to exceed Rs. 200 crore mark by the year 2010. The total production of flowers during 2007-08 was 0.87 million tonnes of loose flowers and 803.5 million tonnes of cut flowers.In 2015-16 in Floricultural Output estimated as 2184 million tones in India.

5. Free Trade:

Liberalisation has removed all restrictions on the movement of agricultural produce within the country. This has facilitated expansion of trade in agricultural products, especially of food grains.

6. Agricultural Exports:

Another important emerging trend of agriculture under liberalisation is the increasing volume of agricultural exports and its increasing prospects in near future under the WTO regime. India is favourably placed in respect of agricultural exports as the agricultural sector is subjected to low import content, low cost of labour, favourable climatic conditions, and low unit cost of inputs.

Agricultural exports are playing an important role in expanding the activities of agricultural sector along with generating increasing number of employment opportunities and also in diversifying agricultural operations. The Export Import Policy (Exim) 1992-97 has provided opportunities for increasing the volume of agricultural exports.

The policy has permitted exports of agricultural goods like oilseeds, edible oil, sugarcane, pulses, coconut, etc. which were prohibited earlier. Accordingly, the total value of agricultural and allied exports of India has increased from Rs. 6,295.2 crore in 1991- 92 to Rs. 77,783 crore in 2008-09 which was nearly 9.2 per cent of country's total exports as compared to that of only 10.59 per cent in 1992-93. Trade policy reforms have provided an opportunity to Indian exporters to export agricultural products to overseas market. India has the potential to export at least 2 million tonnes of rice annually which of course includes nearly 5 lakh tonnes of high value long grain basmati rice. In 1998 over 2 million tonnes of rice had already been exported till November 1998. In order to tap the future potential, Indian exporters are required to improve their processing and packaging facilities to meet international quality standard.

India's share in the world trade in agricultural commodities is less than 1 per cent. For over four decades industry remained highly protective and agriculture served as a source of cheap raw materials for the domestic industry, a very large segment of which was inefficient and globally non-competitive. This had a dampening effect on the agricultural exports and investment in agriculture. The new economic policy since 1991-92 has attempted to correct this imbalance and agriculture has now begun to see some gains through competitive exports. A number of policy changes have been introduced to make agricultural exports more viable. Lowering of import duties on capital goods particularly for green house equipment and plant and machinery necessary for food processing industries as well as easier availability of credit for export has helped agricultural exports.

Most of the restrictions on agricultural exports have been removed. Only two items in the category of agricultural and food export are in the negative list, i.e. beef and tallow. The items on the restricted list have been drastically pruned and only a few items now remain subject to either licensing or quantitative ceiling. Rice and wheat are emerging as major export products. Fruits, vegetables and flowers have emerged as products with immense export potential. A number of Export Oriented Units (EOUs) in the floriculture sector has already been set up. To facilitate export of perishable products, subsidy on air freight is being provided for specified items.

7. Food Processing:

Economic liberalisation has made ample scope for the development and expansion of food processing industry in India. Fruits and vegetables being perishable in nature are facing a huge loss worth Rs. 3,000 crore every year. In order to prevent such loss, the National Horticulture Board is making necessary steps for providing infrastructure and for the packaging, storage and transportation of horticultural products.

The production of processed fruits and vegetables are providing huge number of employment and improving agricultural productivity by raising the prospects of agricultural exports. The Government is also offering necessary incentives by exempting the industry from excise duty. In order to invite foreign capital into this industry the Government has permitted 51 per cent foreign equity partnership and also offered prompt approval of foreign technology transfer to the food processing industry of the country. Production of processed fruits and vegetables grew by about 13 per cent in 1997 but the same has declined by about 5.2 per cent in 1997-98. However, the exports of processed fruits and vegetables are estimated to increase to Rs. 889 crore in 1998-99 as compared to Rs. 745 crore in 1997-98. In 2015-2016, the total production in horticulture sector (fruits and vegetables) is estimated at 282.5 million tonnes.

8. Rising Productivity of Agricultural Resources:

One of the important aims of liberalisation is to attain higher productivity of resources utilized for agriculture. Improvement in the productivity of resources is being done through better allocation of resources between different areas and also with the application of latest technology. In the present regime of liberalisation, there is an emerging trend to emphasize on export oriented policies, applying new improved technologies in food processing and marketing and giving stress on planting crops as per geographical suitability.

9. Developing Agriculture in Backward Areas:

In the post-Green Revolution period, application of new agricultural strategy, research and technology was very much restricted in the production of food grains, i.e. only wheat and rice. But under the liberalisation wave, with the growing demand for agricultural exports, many new areas of agricultural operations have become favourable and lucrative. In the agriculturally backward areas, having no irrigation system, dry land farming has been initiated. The other activities like horticulture, floriculture, animal husbandry, fishery etc. have been encouraged. Application of modern improved techniques in these areas has resulted in the development of many backward areas which were previously subjected to wide spread poverty.

10. Developing New Biological Techniques:

During the period of green revolution, increasing application of chemical fertilizers and pesticides were encouraged extensively in order to meet the growing demand for food required to feed the rising population. Rising population, ever-increasing demand for food and unlimited exploitation, of natural resources have created a grave threat to the environment as well as to the agricultural sector. In order to save and protect the environment as well as the agricultural sector from any further damage, increasing use of biological technology for agricultural operation has been emphasised and more emphasis is being given to develop new biological technology.

11. Growing Trend of Unemployment in Agricultural Sector and Its Solution:

Green revolution and increasing mechanization of agriculture have resulted fall in employment opportunities, resulting in a serious problem in the rural areas. Although many special employment programmes have been introduced to serve as a security net but increasing potentiality of the agricultural sector as emerged from the liberalisation wave should be exploited properly. The growing trend in agricultural exports, increasing demand for horticultural and animal products in the export market has created ample opportunities and scope for employment of huge number of population. This allied sector being labour intensive can provide a lasting solution to the rural unemployment problem of the country.

12. Growing Volume of Subsidies:

In India, the volume of subsidies granted to agriculture, in respect of fertilizer, irrigation and electricity charges etc. has been increasing. Aggregate subsidies provided by the Central Government are estimated at Rs. 22,025 crore in 1998-99 as compared with Rs. 19,664 crore in 1997-98. Out of this total amount about 75 per cent is allotted in the area of fertilizer and food grains. Under the present era of liberalisation, although there is a move to reduce the volume of subsidies in the budget but political compulsions have prevented the government to undertake that move. The subsidy bill on food, petroleum and fertilisers is estimated at Rs 2,31,781.61 crore for 2016-17 fiscal, according to the Budget proposals .

13. Growing Trend of Investment in Agriculture:

Agricultural sector is experiencing a growing trend in the volume of its investment during the post-liberalisation period. But the volume of public sector investment in the agricultural sector is declining. The total volume of investment made in agricultural sector of the country at 1980-81 prices has declined from Rs. 4,636 crore in 1980-81 to Rs. 4,594 crore in 1990-91 and then subsequently increased to Rs. 6,999 crore in 1996-97. During this period the share of public sector investment which was 38.7 per cent in 1980-81 gradually declined to 25.1 per cent in 1990-91 and then subsequently to 16.2 per cent in 1996-97, i.e. from Rs. 1,796 crore in 1980-81 to Rs. 1,154 crore in 1990-91 and then to Rs. 1,132 crore in 1996-97. The public sector banks at Rs.2.11 lakh crore .investment in agriculture..in the year 2016-17. The main reason behind the downward trend in public sector investment was the withdrawal of investment resources in favour of investment in terms of current expenditure incurred through subsidies.

14. Institutionalization of Agricultural Credit:

Under the present wave of liberalisation there is growing trend of institutionalization of agricultural credit. In the initial stage of post-independence period Indian farmers were depending too much on unorganized sources of agricultural credit, i.e., on village money lenders, landlords, traders etc. But such non-institutional credit is very much damaging farmers’ interest as they charge exorbitantly higher rate of interest.

But with the passage of time, there is growing trend to institutionalize the How of agricultural credit mainly through commercial banks cooperative and regional rural banks. Agricultural credit provided by various agencies rose from Rs. 16,494 crore in

1993-94 to Rs. 1,80,486 crore in 2005-06 . In the year 2016-17 12,558.63 crore agriculture credit provided by the banks .

Thus under the present era of liberalisation, the farmers are showing much interest to collect loan from institutional sources and the recovery of agricultural advances has also increased from 56 per cent in 1993-94 to 63 per cent in 2000-01. The share of institutional credit, which was little over 7 per cent in 1951, increased manifold to over 68 per cent in 2010, reflecting concomitantly a remarkable decline in the share of non institutional credit from around 93 per cent to about 30 per cent during the same period. However, the latest NSSO Survey reveals that the share of non-institutional credit has taken a reverse swing which is a cause of concern.

16.3 Summery

It is observed that liberalisation has created several favourable impacts on the agricultural sector of the country. The emerging trends in agriculture which are very much prominent in the post- liberalisation period include the rising productivity, growing investment, diversification of the sector, application of modern techniques, development of horticulture and floriculture, growing volume of exports and development of food processing industry.

16.4 Exercise

Q1 what do you mean by liberalization trends in agriculture?

Q2 what is institutionalization of agriculture credits

16.5 Suggested Readings

- Uma, Kalpa (2008),'Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.
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LESSON -17

IMPACT OF ECONOMIC REFORMS ON INDIAN AGRICULTURAL SECTOR

Structure

17.0 Objective

17.1 Introduction

17.2 Economic Reforms Process

17.3 Impact of Economic Reforms Process on Indian Agricultural Sector

17.4 Marginalisation of Small farmers

17.5 Indian Agricultural Sector

 17.5.1 IX Plan Strategy on Agricultural Development

17.6 Agricultural planning and development

17.7 Summary

17.8 Exercise

17.9 Suggested Readings

17.0 Objective

- Know about the Impact of Economic Reforms Process on Indian Agricultural Sector
- Know about the Agricultural planning and development

17.1 Introduction

The existence or absence of favourable natural resources can facilitate or retard the process of economic development. Professor W.A. Lewis writes : “Natural resources determine the course of development and constitute the challenge which may not be accepted by the human mind”. Developing countries, embarking on programmes of economic development, “usually have to begin with and concentrate on the development of locally available natural resources as an initial condition for lifting local levels of living and purchasing power, for obtaining foreign exchange with which to purchase capital equipment, and for setting in motion the development process” [Fisher64]. With the basic thrust on higher growth in food grain production and other agricultural commodities, increase in productivity and efficient use of resources in agriculture has received special emphasize all through the process of the development, since independence. Sustainable agricultural production depends on the judicious use of natural resources (soil, water, livestock, plant genetic, fisheries, forest, climate, rainfall, and topography) in an acceptable technology management under the prevailing socio-economic infrastructure. Food and Agriculture Organization (FAO) has formulated the following definition for sustainable development in the context of agriculture, forestry and fisheries:

17.2 Economic Reforms Process

Since July, 1991 the country has taken a series of measures to structure the economy and improve the balance of payments position. The New Economic Policy (NEP-1991) introduced changes in the areas of trade policies, monetary & financial policies, fiscal & budgetary policies, and pricing & institutional reforms. The salient features of NEP-1991 are (i) liberalization (internal and external), (ii) extending privatization, (iii) redirecting scarce Public Sector Resources to Areas where the private sector is unlikely to enter, (iv) globalization of economy, and (v) market friendly state. Research reports reveal that this macro-economic adjustment programme is remarkable for its relatively painless transition compared with similar programmes elsewhere and a large part of the credit for absorption of these shocks is due to the steady increase in agricultural production. The GATT Agreement signed in 1995 will fundamentally change the global trade picture in agricultural sector.

17.3 Impact of Economic Reforms Process on Indian Agricultural Sector

Agricultural sector is the mainstay of the rural Indian economy around which socio-economic privileges and deprivations revolve, and any change in its structure is likely to have a corresponding impact on the existing pattern of social equality. No strategy of economic reform can succeed without sustained and broad based agricultural development, which is critical for

- raising living standards,
- alleviating poverty,
- assuring food security,
- generating buoyant market for expansion of industry and services, and
- making substantial contribution to the national economic growth.

Studies also show that the economic liberalization and reforms process have impacted on agricultural and rural sectors very much. The three sectors of economy in India, the tertiary sector has diversified the fastest, the secondary sector the second fastest, while the primary sector, taken as whole, has scarcely diversified at all. Since agriculture continues to be a tradable sector, this economic liberalization and reform policy has far reaching effects on (I) agricultural exports and imports, (ii) investment in new technologies and on rural infrastructure (iii) patterns of agricultural growth, (iv) agriculture income and employment, (v) agricultural prices and (vi) food security .

Reduction in Commercial Bank credit to agriculture, in lieu of this reforms process and recommendations of Khusrao Committee and Narasingham Committee, might lead to a fall in farm investment and impaired agricultural growth [Panda96]. Infrastructure development requires public expenditure which is getting affected due to the new policies of fiscal compression. Liberalization of agriculture and open market operations will enhance competition in “resource use” and “marketing of agricultural production”, which will force the small and marginal farmers (who constitute 76.3% of total farmers) to resort to “distress sale” and seek for off-farm employment for supplementing income.

17.4 Marginalisation of Small farmers

A central issue in Agricultural Development is the necessity to increase productivity, employment, and income of poor segments of the agricultural population. Among the rural poor, the small farmers constitute a sizeable portion in the developing countries. Studies by FAO have shown that small farms constitute between 60-70% of total farms in developing countries and contribute around 30-35% to total agricultural output .

Liberalisation era (1990-91) began in India when over 40% of rural households were landless or near landless, and over 96% of the owned holdings and 68.53% (over 2/3rd) of owned land belonged to the size groups (marginal, small and semi-medium). The decade of 1981-82 to 1991-92 seems to have witnessed a marked intensification of the marginalisation process – the percentage of small owners increased from 14.70% to 21.75%.

Small farmers emerged as the size group with the largest share of 33.97% in the total land, which is just doubled during this decade. As regards the Large Farmers, they were 1 % of the total owners in 1990-91 but owned nearly 13.83% of the total land. An interesting, but speculative, inference is that the changing position of the large owners represents the other side of the marginalisation process, i.e., the presence, and possibly growing strength, of a small but dominant and influential group in agriculture. Analytical reports reveal that marginalisation process could gather further momentum in the years ahead to become an explosive source of economic and political turbulence, due to the features of prevailing policy-cum-market environment in the country.

Trend towards a greater casualisation (erratic and low-paid work) of the workforce that was witnessed in the 1980s appears to have continued in the1990s. Low productivity and inability to absorb the growing labour force make the agricultural sector in India witness to a pervasive process of marginalisation of rural people. This process is likely to get intensified in the coming years, raising formidable problems in achieving sustained development of rural areas and rural people.

Both Information Technology, Genetic Engineering and Bio-Technology, which are the “drivers” of globalisation with their complementarities of liberalisation, privatisation and tighter Intellectual Properties Rights, are bound to create new risks of marginalisation and vulnerability. Information Technology is able to produce a penetrating and clinical mapping of the land, encompassing the physical, chemical and biological features, and groundwater resources, and forecast of climatic conditions in a focussed manner, that even small geographical segments – the small farms – can be benefited through the guidance provided by the ways in which natural and human resources can be optimally combined with appropriate technologies, inputs and options to enhance and diversify agricultural production [KVS2K]. Information Technology will facilitate dissemination of information on development, education, extension, husbandry, marketing, production, and research, to agricultural farmers.

17.5 Indian Agricultural Sector

The Indian Agricultural sector provides employment to about 65% of the labour force, accounts for 27% of GDP, contributes 21% of total exports, and raw materials to several industries. The Livestock sector contributes an estimated 8.4 % to the country GDP and 35.85 % of the agricultural output. India is the seventh largest producer of fish in the world and ranks second in the production of inland fish. Fish production has increased from 0.75 million tons in 1950-51 to 5.14 million tons in 1996-97, a cumulative growth rate of 4.2% per annum, which has been the fastest of any item in the food sector, except potatoes, eggs and poultry meat. The future growth in agriculture must come from

- new technologies which are not only “cost effective” but also “in conformity” with natural climatic regime of the country;
- technologies relevant to rain-fed areas specifically;
- continued genetic improvements for better seeds and yields;
- data improvements for better research, better results, and sustainable planning;
- bridging the gap between knowledge and practice; and
- judicious land use resource surveys, efficient management practices and sustainable use of natural resources.

17.5.1 IX Plan Strategy on Agricultural Development

The agricultural development strategy for the Ninth Five Year Plan is essentially based on the policy on food security announced by the Government, to double the food production and make India hunger free in ten years. The Strategy to ensure food security is as follows:-

- Doubling food production
- Increase in employment & incomes
- Supplementary/sustained employment and creation of rural infrastructure through Poverty Alleviation Programmes (PAP)
- Distribution of food grains to the people Below Poverty Line (BPL)

The Ninth Plan Target is to achieve a growth rate of about 4.5% per annum agricultural output and production of 234 MT of food grains by 2001-02. The Policy thrust and key elements of Growth strategy, as proposed in the Ninth Five Year Plan Document (Volume II : PP444), are as follows:-

- Conservation of land, water, and biological resources
- Rural infrastructure development
- Development of rainfed agriculture
- Development of minor irrigation
- Timely and adequate availability of inputs

- Increasing flow of credit
- Enhancing public sector investment
- Enhanced support for research
- Effective transfer of technology
- Support for marketing infrastructure
- Export promotion

The Ninth Five Year Plan Document (1997-2002 :Volume II) reveals that development of the vast rain-fed areas of about 90MH would require over Rs.37,000 Crores. Further, scientific treatment for soil and water conservation for 12 MH of arable and 3 M.H of non-arable land would require about Rs.7500 Crores. Development of rain-fed areas require a substantial public investment, which may not be possible due to the new policies of fiscal compression. In the coming millenium, on the basis of current trends in the consumption pattern, the estimated total requirement of food grains is likely to be around 245 Million Tons by 2006-07.

17.6 Agricultural planning and development

India is a vast country with a variety of landforms, climate, geology, physiography, and vegetation India is endowed with regional diversities for its uneven "economic and agricultural" development, on account of (i) Agro-climatic environments (15 Zones/127 regions), (ii) Agro-ecological regions (20) and 60 sub-regions, (iii) Agro-Edephic regions, (iv) Terrain mapping sub-units, (v) Natural resources endowments (geology, geomorphology, soil, ground water, surface water, & infrastructure), (vi) Human resources (Population density), (vii) Level of investments in rural infrastructure, and (viii) Level of investment in technology and its adoption.

India has a total geographical area (TGA) of 329 Million Hectares (MH) out of which, about 265 MH represent varying degrees of potential for biological production [Randawa89]. [Dhuruva89] report reveals that more than 50% of TGA is threatened by various types of land degradation, such as soil erosion, gully & ravine formation, salinity, water logging, shifting cultivation, etc. Development of irrigation potential is considered as the key factor in the sustenance of "Green Revolution". Despite 50 years of development planning, rainfed agriculture is the largest and the most important sector of crop production in India.

Soil resources are the most precious non-renewable vital resources for growing food, fibre, and fuel wood to meet the human needs. Management of Soil Resources is essential for both the continued agricultural productivity and protection of environment. By considering various factors like population growth rate, diminishing per capita of land and water resources, and increasing land degradation problems, it is estimated that India will be required to produce an additional 5 – 6 million tons of food grains annually in 21st Century. This will lead to tremendous pressure on soil resources along with competitive demand for it from industrialization and urbanization. However the capacity of soil to produce is limited and its limits to production are set by its inherent characteristics, agro-ecological settings, and its use and management.

Forests are an important natural resources of India, having a moderating influence against floods and also protecting the soil against erosion. About 95% of the forests in India is owned by States and the total area under forests is about 22% of the total geographical area.

Development of livestock has been envisaged as an integral part of sound system of diversified agriculture. In animal production, the major aim is for raising ecologically adapted animals and efficient utilization of locally available feed resource. Dairy development is intimately linked with cattle population, breed improvement, cattle health and disease management, and fodder development, etc. Animal Husbandry in India is essentially a endeavour of millions of small holders (Resource-Poor-Farmers) who rear animals on "crop residues" and "common property resources" without generally allowing them to compete with man for food grains.

17.7 Summary

In this chapter we know about the impact of economic reforms on Indian agriculture in agriculture planning. Agricultural Sector is the mainstay of the rural Indian economy around which socio-economic privileges and deprivations revolve and any change in its structure is likely to have a corresponding impact on the existing pattern of Social equity. Sustainable Agricultural production depends on the judicious use of natural resources (soil, water, livestock, plant genetic, fisheries, forest, climate, rainfall, and topography) in an acceptable technology management under the prevailing socio-economic infrastructure.

17.8 Exercise

Q1What do you means by Economic Reforms Process ?

Q2What is Agricultural planning and development?

Q3 What do you mean by Marginalisation of Small farmers

Q4 What is Impact of Economic Reforms Process on Indian Agricultural Sector ?

17.9 Suggested Readings

- Uma, Kalpa (2008),'Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.
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Lesson-18

ROLE OF INDUSTRY IN ECONOMIC DEVELOPMENT

Structure

18.0 Objective

18.1 Introduction

18.2 Role of industrial development in economic growth

18.3 The Role of Industrialization in the economic development of India

18.4 Industrial Growth Pattern

18.4.1 First Phase (1951-65): Strong Industrial Base:

18.4.2 Second Phase (1965-80): Deceleration and Retrogression

18.4.3 Third Phase: Industrial Recovery in Eighties (1981 to 1991):

18.4.4 Fourth Phase

18.4.5 Industrial Slowdown since 2001

18.5 Positive and negative feature of industrial growth

18.6 Summary

18.7 Exercise

18.8 Suggested readings

18.0 Objective

- understand about the role of industry in economic development
- Know about the Phases of industrial growth

18.1 Introduction

One of the most important tasks of the government is to manage economy of the country. It has to decide the means and methods to be used towards this. However, this job was taken up by almost all countries only after great depression. In pre depression era ,there was faith in laissez Faire model of economy, which literally means–no intervention and let market forces of demand and supply have free hand. This is also known as capitalist mode of economy, where goods and services to be produced are decided by purchasing power of the people. In this model need of people is not deliberately considered, but it is believed that free markets will automatically take care of everyone's need. If there are any mismatches in demand and supply ,then price of the products will fluctuate in order to rope in or out suppliers and consumers and consequently there will be demand supply equilibrium. This kept government intervention away till the end of great depression of 1920's .Industrialization or industrialization is the period of social and economic change that transforms a human group from an agrarian society into an industrial society, involving the extensive re-organization of an economy for the purpose of manufacturing.

18.2 Role of Industrial Development in Economic Growth

The following points explain the role of industrial development in economic growth:

1. Modernization of Industry:

Industrial development is necessary for modernization of agriculture. In India, agriculture is traditional and backward. The cost of production is high and productivity is low. We need tractors, threshers, pump sets and harvesters to modernize agriculture. To increase productivity, we need chemical fertilizers, pesticides etc. These are all industrial products. Without industrial development, these goods cannot be produced. Agricultural products like jute, cotton, sugarcane etc. are raw materials. To prepare finished products like flex, textiles and sugar etc. we need industrialization. So industrial development is necessary for modernization of agriculture.

2. Development of Science and Technology:

Industrial development encourages the development of science and technology. The industrial enterprises conduct research and develop new products. Ethanol in the form of bio fuel is an example of industrial development. Industry conducts research on its wastes and develops byproducts like biodiesel from Jatropha seeds. Due to industrialization, we have made progress in atomic science, satellite communication and missiles etc.

3. Capital Formation:

Acute deficiency of capital is the main problem of Indian economy. In agricultural sector, the surplus is small. Its mobilization is also very difficult. In large scale industries, the surplus is very high. By using external and internal economies, industry can get higher profit. These profits can be reinvested for expansion and development. So industrialization helps in capital formation.

4. Industrialization and Urbanization:

Urbanization succeeds industrialization. Industrialization in a particular region brings growth of transport and communication. Schools, colleges, technical institutions, banking and health facilities are established near industrial base. Rourkela was dense forest but now is ultra modern town in Orissa. Many ancillary units have been established after setting up of big industry.

5. Self-reliance in Defense Production:

To achieve self-reliance in defense production, industrialization is necessary. During war and emergency dependence on foreign countries for war weapons may prove fatal. Self-reliance in capital goods and industrial infra-structure is also necessary. Atomic explosion at Pokhran (Rajasthan) and Agni Missile are examples of industrial growth.

6. Importance in International Trade:

Industrialization plays an important role in the promotion of trade. The advanced nations gain in trade than countries who are industrially backward. The underdeveloped countries export primary products and import industrial products. Agricultural products command lower prices and their demand is generally elastic. While industrial products command higher values & their demand is inelastic. This causes trade gap. To meet the deficit in balance of payments we have to produce import substitute products or go for export promotion through industrial development.

7. Use of Natural Resources:

It is a common saying that India is a rich country inhabited by the poor. It implies that India is rich in natural resources but due to lack of capital and technology, these resources have not been tapped. Resources should be properly utilized to transform them into finished industrial products. The British people took India's cheap raw-materials for producing industrial goods in their country. India was used as a market for their industrial products. So India fought with poverty and England gained during industrial revolution. Hence industrialization plays important role for proper utilization of resources.

8. Alleviation of Poverty and Unemployment:

Poverty and unemployment can be eradicated quickly through rapid industrialization. It has occurred in industrially advanced countries like Japan. The slow growth of industrial sector is responsible for widespread poverty and mass unemployment. So with fast growth of industrial sector, surplus labour from villages can be put into use in industry.

9. Main Sector of Economic Development:

Industry is viewed as leading sector to economic development. We can have economies of scale by applying advanced technology and division of labour and scientific management. So production and employment will increase rapidly. This will bring economic growth and capital formation.

18.3 The Role of Industrialization in the Economic Development of India

Industrialization refers to a process of change in the technology used to produce goods and service. According to Wilbert Emoore and G. R. Madan, it is a much broader process of economic development which has in view the integrated development of all other sectors, i.e. agriculture, power, transport and other services.

Industrialization has a major role to play in the economic development of the under developed countries.The role of industrializtion in the development of country can be analysed as follows:

i. Increase in per capita income.

ii. Growth in international trade

iii. High level of investment

iv. Generation of employment

Thus our economy is based on industrialization to a large extent.

Industrial Policy before 1991:

India started her quest for industrial development after independence. The industrial policy resolution of 1948 marked the beginning of the evolution of Industrial policy.

Features of industrial policy 1948:

i. The industrial policy resolution of 1948 contemplated a mixed economy reserving a sphere for both public and private sector.

ii. The industries were divided into four broad categories viz:

a. Defence industries and control of atomic energy. The ownership and management of these industries was the exclusive monopoly of the Central Government.

b. Coal, Iron and steel, ship building, telephone and telegraphs were to be owned by the state.

c. Basic industries—Fertilizers electron chemicals, non- ferrous metals woolen textiles, minerals etc. were subject to the regulation of Central Government.

d. Remaining industries other than the above mentioned were open to the private sector.

Industrial Policy 1956:

After 1948 significant developments took place in India. Parliament accepted the socialist pattern of economy. It facilitated the fresh statement of industrial policy.

Provisions of 1956 Policy:

i. New classification of industries: Schedule A industries: Exclusive responsibility of the state. Schedule B: State owned industries, but the private enterprises could supplement the effort of the state. Schedule C: All the remaining industries which could be owned by private sector.

ii. Fair and non-discriminatory treatment of Private sector.

iii. Encouragement to village and small scale industries.

iv. Removing regional disparities.

v. Provision of amenities for labour.

Industrial Policy 1977:

In 1977 the Congress Party was thrown out and Janata Party assumed power, new Industrial Policy was introduced to make radical changes in the existing policy. Provisions of 1977 Industrial Policy:

i. Development of small scale sector. Small scale sector was classified into three categories Viz: a. Cottage and household industries. b. Tiny sector with less than 1 lakh investment. c. Small scale sectors with investment upto 10 lakhs.

ii. District industrial centres were to setup in each district to support small scale and cottage industries.

iii. Programmes to enlarge the areas of operation of Khadi and village industries.

iv. Special arrangements for the application of technology to improve the productivity of small and village industries.

v. Large scale sectors should devise programme for small scale and village industries.

vi. Approach towards sick units should be selective and public funds should be pumped into sick units.

vii. Framing policies encouraging worker's participation in management.

Industrial policy 1980:

It was announced by Congress (I). The objective of this policy was to strengthen the economic infrastructure Features:

i. Socio-economic objectives:

a. Optimum utilisation of installed capacity.

b. Maximising production

c. Higher productivity

d. Higher employment generation

e. Correction of regional imbalance

f. Preferential treatment to agro-based industries.

g. Promoting economic federalism.

ii. Revival of the economy

iii. Effective operational management of the Public sector.

iv. Integrating industrial development in the private sector by promoting the concept of economic federalism.

v. Promotion of industries in rural areas.

vi. Removal of regional imbalances.

vii. Industrial sickness and state policy.

The Industrial policy stated that industrial units found guilty of mismanagement leading to sickness would be dealt firmly. All the above industrial policies recognized the need for securing participation of foreign capital and enterprise. But there was no encouragement for foreign ownership and control. These policies could not meet the requirements of liberalized economy and foreign investments. Hence the new policy was framed in 1991.

Features of 1991 Industrial Policy:

(1) Structural Reforms:

With the introduction of new industrial policy a substantial programme of deregulation has been undertaken. Industrial licensing has been abolished for all items except for a short list of six industries, viz.:

i. Distillation of alcoholic drink

ii. Cigars and Cigarette.

iii. Aerospace and defence equipments.

iv. Industrial explosives.

v. Hazardous chemicals.

vi. Drugs and Pharmaceuticals.

MRTP Act has been amended in order to eliminate the need to seek prior government approval for expansion of the present industrial units and establishment of new industries. A significant number of industries had been reserved for the public sector. Some areas reserved for the Public sector are:i. Arms and ammunition(ii.) Atomic energy (iii.) Defence air craft (iv.) Railway transport.

(2) Foreign Direct Investment:

The government has been committed to promoting accelerated growth the industrial sector. The role of foreign direct investment as a means to support domestic investment for achieving a higher level of economic development. FDI benefits domestic industry as well as the Indian consumer by providing opportunities for technological upgradation access to global managerial skills and practices etc. To reduce delays, a simplified approval mechanism for FDI proposals has been put in place via: Automatic approval by RBI to specified industries., Other proposals which do not conform to the guide lines for automatic approval are considered by foreign investment promotion Board (FIPB). The FIPB makes recommendations to the government.

(3) Major initiatives:

The following initiatives have been taken:

(a) Delicensing of some industries Viz: . Coal and lignite , Petroleum and its distillation , Sugar industry , Bulk drugs.

(b) Foreign equity upto 100% in Power sector, Electric generation

(c) Requirement of prior approval by RBI for bringing FDI/ NRI/OCB investment.

(d) The RBI has delegated powers to regional office.

(e) Scope for private sector: The number of industries reserved for private sector has been reduced and entry level barriers have been removed.

(f) Foreign exchange rate policy has been changed. Restriction on current account transaction has been removed.

(g) Integration with global economy. Industrial policy has brought reforms in related areas such as export, import etc. Tariffs have been reduced on imports.

Critical Analysis of New Industrial Policy:

1991 policy has a greater impact on Indian economy and society. It has positive as well as negative impact which may be summed up as follows:

i. Research and development:

Creativity and innovation has become the order the day. Knowledge is updated by constant research and development. Industries are concentrating on research and development to bring out creativity in product design.

ii. Quality:

Quality aspect has gained a lot of significance. The concept of quality has undergone a significant change. Quality is not something which is determined by the quality control department. Rather it is to be judged by the customer. The focus is on total quality which is to be maintained at all levels rights from the manufacture of goods till it reaches the customer.

iii. Infra structure:

On account of new industrial policy, there is extensive growth of infra structure such as Transport, banking, communication etc.

iv. Free flow of foreign capital on account of FDI.

v. Employment opportunities in MNCs

vi. Increase in the standard of living.

vii. Implementation of better technology.

Negative impact of new industrial policy:

i. Tough competition for Domestic industries.

ii. Opposition from trade unions.

iii. Unemployment

iv. Indiscriminate use of natural resources of domestic country by MNCs.

18.4 Industrial Growth Pattern

The industrial growth pattern in India can be divided into four phases as explained below:

18.4.1 First Phase (1951-65): Strong Industrial Base:

The first phase of industrial growth consists of the first three plan periods which had build a strong industrial base in India. During this phase, huge investments were made in major industries like iron and steel, heavy engineering and machine building industries. The annual compound growth rate of industrial production during the first three plan periods moved between 5.7 per cent to 9.0 percent.

The capital goods industries had registered its annual average compound growth rate between 9.8 per cent to 19.6 per cent during this period. Again the annual rate of growth of basic industries moved between 4.7 per cent to 12.1 per cent over the same period. Thus, a strong industrial base was laid during the first phase covering the first three plan periods.

18.4. 2. Second Phase (1965-80): Deceleration and Retrogression:

The second phase of industrial growth covers the period of three Ad-hoc Annual Plans, Fourth Plan and Fifth Plan. The annual compound growth rate in industrial production declined from 9.0 per cent during the Third Plan to only 4,1 per cent covering the period of 1965 to 1976. In 1976-77, the annual rate of growth of industrial output was 6.1 per cent. In 1979-80, a negative annual growth rate of (—) 1.6 per cent was recorded in respect of industrial outputs as the index of industrial production in this year (Base 1970 = 100) has declined to 148.2 as compared to 150.7 in 1978-79.

The industrial sector faced a structural retrogression during the second phase. The capital goods industries registered its annual average growth rate of only 2.6 per cent during the second phase Fifth Plan recorded the annual growth rate of 5.7 per cent which was far below as compared to that of first three five year plans. For, basic industries, the annual growth rate during the second phase was far below as compared to that of Third Plan. Thus basic industries were engaged in the production of ferrous metal groups, construction materials, mechanical engineering industries etc.

Causes of Deceleration and Retrogression:

The causes of deceleration and structural retrogression during the second phase are;

(a) The wars of 1962, 1965 and 1971. During this period investment was made into unproductive uses. Successive droughts of 1965-67 and 1971-73, and oil crisis of 1973 was also responsible for supply constraints.

(b) Considerable slackening of real investment;

(c) Unequal distribution of income in favour of the rich followed by stagnation in demand for consumer goods;

(d) Unsatisfactory performance of the agricultural sector;

(e) Policy constraints and bureaucratic obstacles on industrial growth;

(f) Conflicts in the dominant coalition between proprietary classes, capitalist class and the class representing rich agricultural farmers.

18.4.3. Third Phase: Industrial Recovery in Eighties (1981 to 1991):

The third phase of industrial growth covers the period of eighties consisting of both Sixth and Seventh Plan. This period of eighties experienced industrial recovery. During the period 1981-85, the average annual rate of growth of industrial production was accelerated to 7.0 per cent which further increased to 8.6 per cent during 1985-90. In 1990-91 also, the annual rate of industrial growth was registered at 9.0 per cent.

The growth rate for consumer durable goods increased to 16.9 percent in 1985-89. In 1981-90, there was a set back as the segment recorded only 1.7 per cent growth rate and then the same rate again shot up to 14.8 per cent in 1990-91.

The basic goods industries maintained the annual average growth rate of 8.8 and 8.9 per cent during 1980-85 and 1985-89 respectively. But gradually declined to 5.4 per cent and 3.8 per cent in 1989-90 and 1990-91 respectively. The capital goods industries recorded 6.3 per cent annual rate of growth during 1980-85 which experienced increase in its growth rate of 13.0 per cent in 1985-89 and then significantly 24.0 percent in 1989-90. The growth rate of capital goods was 17.4 per cent in 1990-91.

Thus during this third phase, there is a clear shift in the pattern of industrialisation in the country. Looking at the growth of different product group in the manufacturing sector, chemicals, petrochemicals and allied industries recorded a faster rate as compared to others. During this period, the production of chemicals and chemical product industries, expanded at an annual average rate of 11.19 per cent as compared to that of only 5.47 per cent in machine building sector. Moreover, during this period, iron and steel, basic metal and alloys and metal products recorded only 5.15 percent 4.94 per cent and 3.95 per cent. It shows a clear shift in the growth pattern of the industrial sector during eighties (Third Phase) as compared to two earlier phases.

Causes of Industrial Recovery:

The main factors which were responsible for the industrial recovery during eighties are described as under:

(a) Introduction of new industrial policy and liberal fiscal period.

(b) Higher contribution of agricultural sector in some of the regions in the country which helped in raising the demand for industrial inputs used for agricultural production.

(c) Revival of investment in the infrastructure sectors and its effects in raising the degree of efficiency of the industrial sector.

18.4.4. Fourth Phase:

Industrial Retrogression followed by an Upturn and Downturn Nineties (1991-92 to 1997-98):

The fourth phase of industrial growth covers the early part of nineties, i.e., from 1991-92 to 1997-98. This short period experienced a sharp industrial retrogression followed by an immediate upturn in the industrial growth of the country. During 1991-92, the country had a bitter experience of negative growth rate of (—) 0.10 per cent as compared to that of 8.5 per cent in 1990-91. This is the clear evidence of sharp industrial retrogression in the country. But after that in 1995-96 the country experienced an industrial upturn trend as annual growth rate during this year stood at 11,7 per cent, During the year 1996-97 industrial output has increased by 7.1 per cent and further 8.6 per cent in 1997-98.

The industrial growth rates by use-based industrial classification again showed downward trend from April to Feb. 1997 to 7.2 and 10.2 per cent in April to Feb. 1998. The growth rate of consumer non- durables decreased to 4.2 per cent and 2.4 per cent during April-Feb. 1996-97 and 1997-98 respectively. The growth rate of capital goods industry declined to 7.2 per cent in 1996-97 and to 1.8 per cent in 1997-98. During the same period, the general growth rate of industrial production declined from 7.7 per cent in 1996-97 to only 4.7 per cent in 1997-98.

Causes of Industrial Slow down:

The factors responsible for industrial slow down in the fourth phase are summarized as below:

(a) Decline in the growth of export to 4.6 per cent in the first eight months between April and November 1997.

(b) The impact of the tight money policy followed in 1995-96 when the monetary expansion was about 13.7 per cent;

(c) Significant build up industrial capacity in the first phase of liberalization;

(d) In some cases the rate of demand growth was overestimated.

Signs of Sustained Industrial Recovery in 1999-2000:

The acceleration of growth rates in various sectors of the economy underline the significance of industrial recovery in the current year and cyclical downturn.

However, following are some of the major indicators of industrial recovery in recent years:

(a) Overall industrial output of the country i.e. 6.2 per cent in April-December 1999 as compared to that of only 3.7 per cent in April-December 1998.

(b) The position of electricity generation remained much better in 1999-2000.

(c) Manufacturing segment of industrial sector has grown by 6.7 per cent in April to December 1998.

(d) As per use based classification, basic goods, intermediate goods and consumer goods, are having higher growth in 1999- 2000.

(e) Non-metallic mineral products, machinery and equipment, wool, leather, paper and basic chemicals are some of the industries growing at more than 10 percent during 1999-2000.

(f) Industries like electricity, crude oil, coal, steel and cement having a weight of 26.7 per cent in overall IIP, grew at 8.2 per cent in April-December 1999.

(g) Better corporate performance in 1999-2000 compared to previous year.

18.4.5 Industrial Slowdown since 2001:

In recent years, the country is experiencing a serious phase of industrial slowdown during 2000-01 and in 2001- 02. The overall industrial growth during April-December 2001-02 at 2.3 per cent, is substantially lower than the 5.8 per cent achieved during the corresponding period of 2000- 01. In fact, the growth rate of the industrial sector during the first nine months of 2001-02 is considered as the lowest during the last ten years.

Industrial slowdown was recorded in all broad sectors such as manufacturing, electricity and mining an all end use based groups such as capital goods, intermediate goods, consumer goods both durables and non-durables. However, the reasons for slowdown in industrial growth during this period is due to a number of structural and cyclical factors. The other reasons are explained below:

1. The adjustment process is industry in response to increased competition in the form of Mergers and Acquisitions is taking longer time than expected.

2. Infrastructural bottlenecks and high costs.

3. Unreliable supply of services in transport, communications and power sector.

4. Low levels of productivity due to low economies of scale, out-dated technology and restricted labour laws'.

5. Lower speculative demand for sectors like automobiles and real estate due to expectation of lower prices and reduction of taxes and duties in the short term period.

6. High interest rates.

18.5 Positive and negative feature of industrial growth

Positive Features of Industrial Growth during the Plan Period:

The trend in industrial growth over about 60 years appears to be impressive. During this period, both the pattern and the structure of Indian industries have undergone a significant change.

1. Significant Growth Rate:

The trend in industrial production in India shows a compound growth rate of 6 p.c. The growth rate for the period 1951-55 was 5.7 p.c., 7.2 p.c. in 1955-56 and 9 p.c. in 1960-65. Thus, from the 50s to the mid- 60s, there was a significant acceleration in the industrial growth. It declined to a very low level around 3.7 p.c. in 1966-70. This period was marked by recession in Indian industries.

However, industrial production started picking up after the mid-70s. Still then, the recovery was not high enough. The growth rate of industrial production was around 5-2 p.c. during 1975-83. The decade of 1980s, however, showed a remarkable growth of the industrial sector following liberalisation measures introduced in the mid-1980s, But the decade of 1990s did not augur well.

The early years of reform yielded unsatisfactory dividends as far as growth of the industrial sector was concerned. After responding to economic reforms with vigour and registering a robust growth rate of 12.8 p.c. in 1995-96, there had been a slowdown in industrial expansion since 1996-97 when growth rate decelerated to 5.6 p.c. against a growth rate of 13 p.c. in 1995-96.

Declining trend continued in 1998-99 with overall industrial production registering 4.1 p.c. growth during 1998-99.

Minor recovery took place in 1999-2000 when overall growth rate increased to 6.7 p.c. The position deteriorated again in the next year when trends in industrial growth and by sectors also suggested an all-round slowdown in industrial activity in 2000-01 (2.7 p.c.) and 2001- 02 (2.8 p.c.).

Industrial growth rate, however, picked up in the Tenth Plan when the growth rate rose to 8 p.c. against the target industrial growth rate of 10 p.c.

2. Increase in the share of Industrial Sector in National Income:

The contribution of the industrial sector towards national income is rising continuously. Its share was 16.1 p.c. in GDP in 1950-51. It rose to 25.2 p.c. in 1990-91. This indicates industrialisation. Since then it is on the declining trend. It has come down to 24.9 p.c. in 2007-08.

3. Expansion of Public Sector:

Over the planning period, public sector has registered a phenomenal growth. The idea for giving emphasis to the public sector was to provide a firm base for setting up core industries like power, coal, steel, fertilisers, atomic energy and machine building in the public and to leave the rest for the private sector.

The Seventh Plan has, however, shown preference to the private sector. The Eighth, Ninth and the Tenth Plans, of course, have placed great emphasis on this private sector.

4. Strengthening of Industrial Base:

Besides these quantitative aspects of industrial growth, we also find large progress in strengthening the base of future industrial growth. From the very beginning of the planning period, basic and capital goods industries received utmost attention. Consequently, its performance in total industrial output and gross value added become remarkable as compared to consumer goods industries.

These industries are the base of industrialisation. Because of the strengthened industrial base including adequate building up of infrastructural facilities, other industries registered a better growth, particularly intermediate goods industries. This, of course, is not a mean achievement.

5. Modernisation:

India has now a large variety of industries producing goods of varied nature which shows the degree of modernisation. Some modern industries have really come up and they are competing effectively with the outside world. Modernisation is also evident in the field of technological and managerial skills.

This has reduced our dependence greatly on foreign experts and technologists. On the contrary, India is exporting trained personnel in relatively less developed countries.

6. Self-Reliance:

Another positive aspect of industrial growth is the attainment of the goal of self-reliance. We have achieved self-reliance in machinery, plant and other equipment.

Today, the bulk of the equipment required for industrial and infrastructural development is produced within the country.

Negative Aspects of Industrial Growth:

Industrial growth in India has been exposed to certain undesired lines. These suggest the failure of industrial planning. The most significant failure of industrial planning of India are:

(i) The structural retrogression in the industrial structure;

(ii) Expansion of large industrial houses and concentration of economic power;

(iii) Miserable performance of the public sector;

(iv) Under-utilisation of capacity; and

(v) Industrial sickness.

These negative aspects of India's industrial growth are presented below one by one.

1.Structural Retrogression in the Industrial Sector:

By industrial structure we mean interrelationship among different industry groups like consumer goods, intermediate goods and capital goods industries. At the initial stages of industrialisation, consumer goods industries predominated in the Indian economy. As the pace of industrialisation quickened, consumer goods industries lost importance and capital and intermediate goods industries got prominence. This sort of structural change reflects industrialisation of a country.

India was on the road to industrialisation at the early stages of planning till 1965 when there was a remarkable expansion of basic and capital goods industries as compared to consumer goods industries. And the period after 1965 witnessed deceleration in industrial output for all types of industries, excepting consumer goods industries. Within the consumer goods industries, durable consumer goods industries registered a high growth. Thus, Indian industries after 1965 showed not only poor growth but also reflected phenomenon of structural retrogression.

The situation continues to be almost similar in the 1990s and 2000s. Basic industries fared badly in 2005-06 when it struck a growth rate of 6.7 p.c. as against 10.8 p.c. in 1995-96. However, the year 2006-07 showed more than 10 p.c. growth of basic goods industries. Intermediate goods industries showed a remarkable decline. However, growth of capital goods industries in 2005-06 was remarkable.

And, this upbeat continued in 2006-07 when capital goods industries recorded a growth rate of 18.2 p.c. Along with this pattern of industrial development, one finds an increase in import-intensity of domestic manufacturing industry as a consequence of liberalisation. Hence, a process of liberalisation-induced import substitution in the manufacturing sector has emerged.

2. Expansion of Large Industrial Houses and Concentration of Economic Power:

It is the large industrial houses which have flourished over the planning period. There were two monopoly houses worth the name in 1953-54. They were Tata and Birla. Over time, these two houses have not only grown in size enormously, but also 18 other industrial houses have come up very much with a menacing speed, despite legislative measures (say, the MRTP Act). Growth of these industrial houses is definitely an impediment towards the establishment of a socialistic pattern of society. Another allied evil of the growth of large industrial houses in India is the concentration of economic and political power in their hands.

However, the objective of establishing a socialist pattern of society in India has been buried underground in the 1990s. No longer private monopolists are required to be controlled and regulated. They are given enough latitude to produce any commodity even with multinational corporations (MNCs). Reduction of-concentration of economic power in the hands of a few private industrialists is no longer the objective of Indian Five Year Plans since destatisation policy has assumed a great proportion after 1991. The MRTP Act has been replaced by the Competition Act, 2002.

3. Miserable Performance of the Public Sector:

It is the public sector that must flourish to fulfil the avowed objective of the government being purshed since the launching of the First Plan. Its growth is phenomenal over the years. Still, then, its performance has come in for sharp criticisms. It has failed to generate adequate resources for development. Following the introduction of New Economic Policy in 1991, the importance of the public sector in India’s industrial planning has been pushed behind. On the contrary, what one finds is the privatization of the public sector enterprises through a policy of disinvestment. However in recent years the performance of the public enterprises is not altogether bad.

4. Under-utilization of Capacity:

A large number of Indian industries suffer from under-utilization of capacity. However, the degree of utilization of capacity differs from industry to industry and from year to year.

5. Industrial Sickness:

Along with under--utilization of capacity, another phenomenon that marked the industrial scene in recent years is the growing sickness of Indian industries. In 1990, the number of sick industrial units was 2,21,097 The number rose to 2.50 lakhs in March 2001. Of these, slightly less than 2.50 lakh units were in the small-scale sector. The growing sickness of industrial units is a major growth constraint. Since then, this trend has been arrested. In March 2003 the number of total sick units declined to 1.71 lakhs. It declined further to 1.31 lakh in March 2006. Of these, the number of small units stood at 1.26 lakh in 2006 and it declined further to 1.14 lakh in March 2007.

To sum up, India’s industrial expansion over the plan period presents a mixed picture. Compared to the pre-independence level, industrial growth in the planning period is phenomenal. But, in the process, some undesirable elements have come out in recent years which have vitiated the industrial climate. Policy implication is, thus, equally apparent

18.6 Summary

The policy changes made in the last few years have clearly reinforced the modernizing in the development process. looking ahead the task is indeed to fold.

a) Restructuring the consolidation of enterprises to maximize so as to position the industries to more rapid development. The shift to a qualitatively new pattern of industrial growth cannot be possible without tacking the issue of surplus labour.it is therefore, desirable to evolve a new approach that recognizes the rights of laborers and provides suitable incentives to them.

18.7 Glossary

- Public sector: It consisted of those production units which are owned and controlled by the state.
- Heavy industries- These production units produce some capital goods.
- Industrialization- a process by which the center of gravity of an economy shifts from agriculture to industry
- Recession- Refers to an abnormal fall in the economic activity.

18.8 Exercise

Q1 Analyzed the rate and pattern of industrial growth during the last two decades of liberal economic policy regime?

Q2. Give an outline of the role of industrialization in economic development.?

Q3 Explain the industrial licensing in India.?

18.9 Suggested Readings

- Uma, Kalpa (2008),'Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.
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LESSON 19

MEANING AND CONCEPT OF COTTAGE AND SMALL SCALE INDUSTRIES

Structure

19.0 Objective

19.1 Introduction

19.2 Cottage and Small Scale Industries

19.3 Role of Cottage and Small Scale Industries

19.4 Problems faced by Small Scale Industries

19. 5 Measures to Promote SSIs (Government Measures)

19.6 Summary

19.7 Exercise

19.8 Suggested Readings

19.0 Objective

- Know the meaning of small and cottage industries .
- Understand the problem and measures of SSIs.

19.1 Introduction

Cottage and small scale industries are defined in terms of investment in plant and machinery under section II B of Industries (Development and Regulation) Act 1951. The limit is revised from time to time to offset the impact of inflation and to meet the technological needs. Cottage industry is the one which is run by an individual with the help of his family members with very little capital. Most of the cottage industries do not use power. According to the Fiscal Commission (1949-50) "cottage industry is an industry which is run either as whole- time or part-time occupation with the full or partial help of the members of the family". These industries are mostly run by the artisans in their own homes. The use of power and machines in these industries are very limited. The products produced in cottage industries are usually to satisfy the local demands. Number of hired-labour in this sector is very limited and the capital investment is also small. They are mostly located in villages and rural areas.

In India, the first official criterion for small scale industry dates back to the second Five Year Plan when it was defined in terms of gross investment in land, building, plant and machinery and the strength of the labour force. In 1955 Small Scale Industries Board defined small scale industry as "A unit employing less than 50 persons, if using power and less than 100 persons without the use of power and with capital assets not exceeding rupees five lakhs.

In India, the first official criterion for small scale industry dates back to the second Five Year Plan when it was defined in terms of gross investment in land, building, plant and machinery and the strength of the labour force. In 1955 Small Scale Industries Board defined small scale industry as “A unit employing less than 50 persons, if using power and less than 100 persons without the use of power and with capital assets not exceeding rupees five lakhs” 3. The Ministry of Commerce and Industries modified the above definition in 1960 on the recommendation of the Small Scale Industries Board. According to it “small industries will include all industrial units with a capital investment of not more than rupees five lakhs, irrespective of the number of persons employed” 4. Thus, this revision has enlarged the scope of employment opportunities in small scale sector, but the investment ceiling remains unchanged. In 1972, the Government of India constituted a Committee for drafting legislation for small-scale industries, which suggested that small-scale industries might be classified in to the following three categories.

a. Tiny Industry Tiny units are those in which the investments in fixed assets are less than Rs. 1 lakh or Rs. 4000/- per worker and the annual turn-over does not exceed Rs. 5 lakh.

b. Small Industry Small industry is one in which capital investment in fixed assets does not exceed Rs. 7.5 lakh irrespective of the number of persons employed.

c. Ancillary Industry An ancillary unit is the one rendering services and supplying or proposing to render 50 percent of its production or total services, as the case may be, to other units for production of other articles. Moreover, such a unit should not be owned or controlled by any undertaking. The limit for investment in fixed assets of such an industry is fixed at Rs. 10 lakh

Definition

The Small Scale Industries Board(1955) – “A unit employing less than 50 persons if using power and less than 100 persons without the use of power and with capital assets not exceeding Rs. five lakhs.

Government of India (1980)- “Undertakings having investment in fixed assets in plants and machinery not exceeding Rs. 15 lakhs and engaged in the manufacturing of parts of components, sub-assemblies or intermediaries and proposes to supply at least 50% of its production to one or more parent unit and such ancillary industry shall not be a subsidiary of or owned or controlled by any other undertaking.”

19.2 COTTAGE AND SMALL SCALE INDUSTRIES

There is no single, uniformity acceptable definition of small or medium enterprise. Micro, small and Medium Enterprises Development (MSMED) Act, 2006 provided a comprehensive definition of micro, small and medium enterprises. Under the act, enterprises have been categorized broadly as:

A) Manufacturing Enterprises and

B) Service Enterprises

(a) Manufacturing Enterprises are the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

(b) Service Enterprises are the enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified on 29-09-2006 are as under:

Manufacturing Sector	
Enterprises	Investment in plant machinery
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium Enterprises	More than 5 crore rupees but does not exceed 10 crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed 10 lakh rupees:
Small Enterprises	More than10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 core rupees

The enterprises can take any form - proprietorship, company, cooperative, association of persons, Hindu Undivided Family, partnership etc. Further, this definition is not restricted by the number of persons employed by the firm nor the electricity consumed by the firm, as was the case in the past or as is still practised in some other countries.

SMEs are identified to provide special investment assistance and handholding as they contribute significantly to the employment, production and export in the country.

19.3 Role of Cottage and Small Scale Industries

The role of small-scale and cottage industries under the following headings:

(1) Employment Generations:

The small-scale units employed 129.80 lakh people in 1991-92 and this number has consistently risen to 185.6 lakh people in 2000-01 and 1171.32 lakh people employed in SSI in the year 2015-16. Given the acute problem of unemployment in India, creation of employment opportunities depend crucially on the development of small-scale and cottage industries. There is already surplus labour in agriculture while the large-scale industrial sector, being capital-intensive in nature, has limited employment opportunities. In fact, the employment argument is the strongest argument that can be put forward in favour of small-scale and cottage, industries in India.

(2) Relative Efficiency as Compared with Large-Scale Sector:

(i) Whether large-scale industries are more efficient or small-scale industries are more efficient, is a matter of debate. The problem arises because of the fact that efficiency can be defined in many different ways. The study on this issue was conducted by SIDBI (Small Industries Development Bank of India) Team in 1999 in association with NCAER (National Council of Applied Economic Research)The covers the period 1980-2015-16. The small-scale industries, by investing only 7 percent to 15 percent of the total manufacturing sector's capital, contribute to nearly one-fifth of industrial output and 35 to 40 percent of total employment in the industrial sector. Moreover, both labour productivity and capital productivity in small-scale sector grew at a faster rate than large-scale sector during 1980-2016. Thus, the small-scale sector has proved to be more efficient.

(3) Equitable Distribution of National Income:

The main arguments put forward in support of the small-scale and cottage industries is that they ensure a more equitable distribution of national income and wealth. This happens because of the following two considerations: (a) The ownership of small-scale industries is more widespread than the ownership of large- scale industries, and (b) They possess a much larger employment potential as compared to the large industries.

(4) Regional Dispersal of Industries:

There has been massive concentration of large-scale industries in the states of Maharashtra, West Bengal, Gujarat and Tamil Nadu. As a result, disparity in industrial development have increased. Even within these industrialized states, industries have tended to get concentrated in a few large cities like Mumbai and Chennai. People migrate in large numbers from villages and lower order urban centres to these centres of industrial development. This swells the population of slums and create various social and personal problems. The whole urban environment gets polluted. As against this, the small-scale industries are ostly set up to satisfy local demand and they can be dispersed overall the state very easily. They can also effect a qualitative change in the economy of a state. The most glaring example of this phenomenon is the economy of Punjab which has more small- scale industrial units than even the industrially developed state of Maharashtra.

(5) Mobilisation of Capital and Entrepreneurial Skill:

Small-scale industries are at a distinct advantage as far as mobilisation of capital and entrepreneurial skill is concerned. A number of entrepreneurs are spread over small towns and village industries are distributed over the entire length and breadth of the country. Similarly, large-scale industries cannot mobilise the savings done by people in areas far flung from the urban centres. But this task can be effectively accomplished by getting up a network of small-scale and cottage industries. In addition, a large number of other resources spread over the country can be put to an effective use by the small-scale and cottage industries. The rapid development of small-scale industries in the post-Independence period is a proof that given the necessary credit, power and technical knowledge a large quantity of latent resources of the economy can be mobilised for purposes of industrial development.

(6) Less Industrial Disputes:

A number of supporter of small-scale and cottage industries have argued that as compared with large-scale units, these industries have less industrial disputes. While these are frequent strikes and lock-outs in large industries, small-scale and cottage industries do not face such problem. Therefore, there is no loss of output in small-scale and cottage industries. However, this point of view is not totally correct. The fact is that workers in large scale units are organised and thus the strikes are well reported in media. As against this workers in small scale units are unorganised and cannot resort to strike. Any worker who shows his resentment is immediately thrown out. Therefore, while in a small-scale unit relations between the employer and employees appear to be normal on the surface but in fact they may be not. In the case of cottage industries, the question of dispute does not arise at all since the main form of labour in these industries is family labour.

19.4 Problems faced by Small Scale Industries

Small scale industries are not in a position to play their role effectively due to various constraints. The various constraints, the various problems faced by small scale industries are as under:

(1) Financial Problems:

Finance is the most important aspect for any industrial development. The scarcity of finance and credit is the main obstacle in the growth of SSEs. These enterprises are generally organized in sole-proprietary and partnership concerns and so have no access to the capital market. There exists insufficient equity type institutional support. Delays in institutional finance, unhelpful attitude of banks are the common problems of SSEs. The delay in sanctions of loans occur due to lengthy procedural formalities, insistence upon certificate from local authorities such as village office, block development officers etc and over-emphasis on collateral security. Banks generally avoid financing smaller SSEs due to high mortality rate, low overall recovery performance and high cost of servicing SSEs loans. In this scenario SSEs have to depend upon high interest non-institutional finance.

(2) Idle Capacity:

There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilisation are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

(3) Technology:

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modem large scale units.

(4) Marketing:

These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion. With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position. In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

(5) Infrastructure:

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts. Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

(6) Lack of Proper Planning:

Planning comprises of the outlay of the quantum of output, time framework of implementation, product and marketing strategies. The performance feasibility study are often neglected by SSEs due to time and cost factors. As a consequence, SSEs face large sickness at early stage of their operation.

7) Sickness:

There exists large level of sickness amongst SSEs. The incipient sickness (ie. Sickness at an early stage of existence) is largely due to lack of planning, professional management and financial problems. The sickness causes wastage of large amount of finances that remain locked into these units. Further, sickness also leads to various socio-economic problems such as lower production, employment and exports.

(8) Shortage of Raw Material:

Raw material scarcity caused disruption in the production process. SSEs fail to make bulk purchases and thus have to pay higher price for inputs. The suppliers of scarce raw material give preference to buyers. SSEs have to depend upon low quality localized high price raw material. Further, SSEs fail to make alternative arrangements for critical inputs such as power due to financial constraints. These factors adversely affect product quality and cost of production.

19.5 Measures to Promote SSIs (Government Measures)

An important place is assigned to SSEs sector in the development policy of the country. Till 90's Government focused more on protectionist policy towards SSEs. The shift in policy paradigm towards this sector occurred since1991 to impart more vitality and growth-impetus to the sector. The sector has been substantially delicensed. The regulations and procedures have been reviewed and modified to instill competition and efficiency in this sector. The policy initiatives adopted to promote this sector are discussed below:

1. Reservation: The policy of reservation was initiated in 1967 primarily as a promotional and protective measure for exclusive production in SSEs. The number of items reserved is continually revised by Government. In 1967, 47 items were reserved for exclusive production by SSEs which expanded to 873 in October 1984. The rationale of reservation policy was to expand employment opportunities through setting up of SSEs and to protect them from competition by large enterprises. In the new global scenario with WTO agreement Government is required to remove quantitative restrictions on imports of items. A large number of items exclusively reserve for SSEs can now be freely imported. Thus the reservation has cost its relevance so the government has drastically reduced the number of items reserved for exclusive manufacture by micro small and medium enterprises (MSME). As on March 2007, the list of items for exclusive production contains 114 items which was further reduced to 35 in February 2008. Non-MSME units can undertake manufacture of reserved items only if they undertake 50 percent export obligations.

2. Financial Support: Government has made efforts to ensure adequate and timely availability of financial assistance to SSEs. RBI has issued guidelines to public sector banks to ensure 20 percent growth in credit to SSEs. Small Industries Development Bank of India (SIDBI) which is an apex institution and coordinates the financial assistance availability to SSEs has scaled up and strengthens its credit operations to this sector. The branch network of SIDBI has been increased. In order to improve an access to the capital market, the equity participation by other industrial undertaking not exceeding 24 percent of total shareholding has been allowed. The legislative changes are under way to allow limited liability partnership for SSEs. This would limit the financial liability of some partners who have invested capital. Risk capital fund has been created to provide equity-type long term loans to SSEs. The credit guarantee fund scheme is launched by government in 2000 to allow collateral free credit to SSEs.

3. Fiscal Support: Government has allowed tax concessions in terms of lower excise duty on production, lower sales tax on sales, tax-holiday and extended the time limit for payment of excise duty by SSEs.

4. Marketing Support Measures: In order to provide market support to SSEs, Government has taken following measures:

(i) Preferential Purchases and Price Preferences by Government: The Government organizations are statutorily required to make specified level of purchase from SSEs and the same has to be disclosed in their annual reports. At present the number of items for exclusive purchase from SSEs stood at 358. Government also provides price preference to SSEs in their purchases over large scale units.

(ii) Financial Assistance is allowed for participation in the international trade fair by representatives of SSEs.

(iii) Training Programmes on various aspects of marketing like marketing management, export marketing etc are conducted by Government.

(iv) Institutional Marketing Support is provided by National Small Industries Corporation (NSIC) and Small Industries Development Organization (SIDO).

5. Institutional Support: Government has established various organizations to help SSEs. These institutions assist SSEs in purchase of raw material, marketing of goods, technological and skill improvement and arranging credit. The important organization established are Khadi and Village Industries Commission and commodity specific organizations such Handloom Board, Cottage Industries Board, Coir Board etc. Specialized financial and consultancy institutions such as SIDBI, NABARD (for supporting rural industries), SIDOs, NSIC has been established to provide financial, marketing and managerial assistance to SSEs.

6. Raw Material Assistance: The institutional support is provided to allow availability of raw material (both indigenous and imported) at fair price. The centers have been established to distribute scarce raw material to SSEs. Buffer stocks are maintained for raw materials. This has helped SSEs to focus on production of quality products.

Recent Government's Initiatives

In view of liberalization and globalization and reduced Government intervention in market-driven economy the protectionist policies has been replaced by supportive policies. The recent measures adopted by government are as follows:

i) Legislative Measures: Micro, Small and Medium Enterprises Development Act, 2006 has been enacted to facilitate the promotion and development of SSEs. This Act seeks to facilitate promotion and development and enhancing competitiveness of these enterprises. It provides the first-ever legal framework for recognition of the concept of "enterprise" (comprising both manufacturing and services) and integrating the three tiers of these enterprises, namely, micro, small and medium. The basic purpose is to develop the consultative mechanism at the national level that represents stakeholders from three classes of enterprises. The act provides for the establishment of specific funds to support SSEs. The progressive credit policy with targetted growth of credit to SSEs has been incorporated in the Act. The mechanism has been designed to reduce the problems of delayed payment to SSEs.

ii) Support for Cluster-Based Development: The holistic approach is adopted to develop cluster of SSEs so as to provide common facilities in these clusters. The existing industrial infrastructure will be upgraded and new facilities will be created in the public-private partnership mode.

iii) Technology and Quality Up Gradation :The support is provided by establishing training-cum product development centers.

iv) Strengthening of Entrepreneurial and Managerial Development Programmes: Financial assistance is provided to B-schools to conduct tailor-made management courses for SSEs. Entrepreneurial clubs are established in the Colleges or Universities.

v) Empowerment of Women-Owned Enterprises: The concessions, marketing and credit facilities on priority basis are provided to enterprises owned and managed by women.

vi) Strengthening of Data base for SSEs: It is decided to collect database on SSEs through annual sample surveys and quinquennial (i.e. happening every five years) census so that policy decisions can be framed for SSEs based on systematic data that provides inputs for systematic policy initiatives.

19.6 Summary

SSEs enjoy inherent advantages over their larger counterparts in terms of generation of employment opportunities, equality of income and wealth and greater export potential. The globalize economy has ushered in greater accessibility to the market, need of greater linkage of SSEs with larger companies and improved manufacturing techniques. The measure adopted by Government have been attempted to alleviate the problems of SSEs. The recent initiatives have changed the outlook of business from protection to liberalization. It has created a sense of competition amongst SSEs.

19.7 Exercise

Q1 Distinguish between Small Scale and Cottage Industries.

Q2 Explain the role and importance of Small-Scale Enterprises in Indian Economy.

Q3 What are the problems facing SSEs in India?

Q4 Discuss Indian Government’s measures to improve the development of SSEs

19.8 Suggested Readings

- Uma, Kalpa (2008),'Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.

- Prakesh, B.A.(2009),' Indian Economy Since 1991: Economic Reforms And Performance. Sage Publication New Delhi.
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LESSON- 20
INDUSTRIAL POLICY-I

Structure

20.0 Objective

20.1 Introduction

20.2 Industrial Policy Pre-reform Period

20.2.1 Industrial Policy Resolution, 1948

20.2.2 Industries (Development and Regulation) Act,1951

20.2.3 Industrial Policy Resolution, 1956

20.2.5 Industrial Policy Statement, 1973

20.2.6 Industrial Policy Statement,1977

20.2.7 Industrial Policy, 1980

20.3 Era of Liberalization After 80s

20.3.1 Major Features of Pre-1991 Industrial Policy

20.4 Post Reform Period of Industrial Policy

20.5 Evaluation of New Industrial Policy

20.6 Summary

20.7 Exercise

20.8 Suggested Readings

20.0 OBJECTIVE

- Know about the Industrial policy pre and after reform period
- Know about the New industrial policy 1991.

20.1 Introduction

The industrial policy means the procedures, principles, policies rules and regulations which control the industrial undertaking of the country and pattern of industrialization. It explains the approach of government in contest of development of industrial sector. In India the objective of economic policy is to achieve the self-realization all sectors of the economy and to develop socialistic pattern of society. the industrial policy in pre reform period i.e. before 1991 but greater emphasis on the state intervention in the field of industrial development**.**

20.2 Industrial Policy Pre-reform Period

Industrial policy prior to 1991 explain as follow-

20.2.1 Industrial policy Resolution, 1948

The first important industrial policy statement was made in the industrial policy resolution (IPR) 1948. The main Thrust of IPR 1948 was to lay down the foundation of mixed economy where by the private and public sector was accepted as important components in the development of industrial economy of India . The policy divided the industries into four categories :

1) Industries with exclusive state monopoly: It included industries engaged in the activity of atomic energy, railways and arms and ammunition.

2) Industries with government control: It included the industries of national importance and so needs to be registered. 18 such industries were put under this category e.g. fertilizers, heavy chemicals , heavy machinery etc.

3) Industries in the mixed sector: It included the industries where private and public sector where allowed to operate.

4) Industries under private sector : Industries not covered by above categories fall in this category. IPR , 1948 gave public sector vast area to operate. Government took the role of catalytic agent of industrial development The resolution assigned complement role to small scale and cottage industries . The foreign capital which was seen with suspect the pre - independent era was recognized as an important tool to speedup industrial development.

20.2.2 Industries (Development and Regulation) Act,1951

To control and regulate the process of industrial development in the country, an act was passed by the parliament in October 1951. IPR 1951 is the key legislation in the industrial regulatory framework. IDRA , gave the powers to maintain industry in the number of ways. The main instruments were the regulation of the capacity and power to control the prices It specified a schedule of industries that were subject to licensing. Even the expansion of these industries required prior permission of government which means the output capacity was highly regulated. The government was also empowered to control the distribution and prices of output produced by industries listed in the schedule.

The IPR Act gave very wide powers to the government. This resulted in more or less complete control by the bureaucracy on the industrial development of the country . The main provision of the IDRA, 1951 were

(a) All existing undertakings at commencement of Act, except those owned by the central government were compulsorily required to register with the designated authority.

(b) No one except the central government would be permitted to set up any new industrial undertaking " except under and in accordance with a license issued in that behalf by the central government."

(c) Such a license prescribed a variety of conditions , such as, location, minimum standers in respect of size and techniques to be used, which the central government may approve.

(d) Such license and clearances were also required in case of substantial of an existing industrial undertaking.

20.2.3 Industrial Policy Resolution, 1956

IPR ,1956 is the next important policy statement. The important provisions are as follows:

1) The new classification of industries : IPR ,1956 divided the industries into the following three categories:

A) Schedule A industries : The industries that were the monopoly of the state of Government. It included 17 industries. The private sectors was allowed to operate in these industries if national interest so required .

B) Schedule B industries: In this category of industries state was allowed to establish new units but the private sector was not denied to set up or expend existing units e.g. chemical industries, fertilizer, synthetic, rubber, aluminum etc .

C) Schedule c industries: The industries not mentioned in the above category formed part of schedule c . Thus the IPR , 1956 emphasized the mutual existence of public and private sector industries.

2) Encouragement of small scale and cottage industries: In order to strengthen the small scale sector supportive measures were suggested in terms of cheap credit, subsidies, reservation etc.

3) Emphasized on reduction of regional disparities: Fiscal concessions were granted to open industries in backward regions. Public sector enterprises were given greater role to developed these areas.

The basic rationale of IPR ,1956 was that the state had to be given primary role for industrial development as capital was scare and entrepreneurship was not strong. The public sector was enlarged dramatically so as to allow it to hold commanding heights of the economy.

Monopolies Commission

In April 1964, the government of India appointed a monopolies inquiry commission" to inquire into the existence and effect of concentration of economic power in private hands". The commission looked at concentration of economic power in the area of industries. On the basis of recommendation of the commission, monopolistic and restrictive Trade practices Act (MRTP ACT) 1969 was enacted The act sought to assets size over a particular limit.

20.2.5 Industrial Policy Statement, 1973

The policy statement of 1973 drew up a list of industries to be started by large business houses so that the competitive effort of small industries was not affected .The entry of competent small and medium entrepreneurs was encouraged in all industries.

Large industries were permitted to start operations in rural and backward areas with a view to developing those areas and enabling the growth of small industries around.

20.2.6 Industrial Policy Statement,1977

The main elements of the new policy were:

1) Development of small scale sector: The main thrust of new industrial policy was an effective promotion of cottage and small industries. Government initiated wide - spread promotional and supportive measures to encourage small sector. The small sector was classified into 3 categories viz cottage and household industries which provide self employment, tiny sector and small scale industries. The purpose of the classification was to specifically design policy measures for each category. The policy statement considerably expended the list of reserved items for exclusive manufacture in the small scale sector.

2) Restrictive Approach towards large business houses: The large scale sector was allowed in basic , capital goods and high tech industries. The policy emphasized that the funds from finical institution should be made available largely for the development of small sector. The large sector should generate internal finance for financing new projects or expansion of existing business.

3) Expanding role of public sector: The industrial policy stated that the public sector would be used not only in the strategic areas but also as a stabilizing force for maintaining essential supplier for the consumer. Further the policy statement reiterated restrictive policy towards foreign capital whereby the majority interest in the ownership and effective control should rest in Indian hands.

20.2.7 Industrial Policy, 1980

The industrial policy 1980 emphasized that the public sector is the pillar of economic infrastructure for reason of its greater reliability, for the large investments required and the longer gestation periods of the projects crucial for economic development. The IPR1956 form the basis of this statement. The important features of the policy were:

1) Effective management of public sector: The policy emphasized the revival of efficiency of public sector undertaking.

2) Liberalization of industrial licensing: The policy statement provided liberalized measures in the licensing in terms of automatic approval to increase capacity of existing unit under MRTP and FERA. The assets limit under MRTP was increased. The relaxation from licensing was provided for large number of industries.

3) Redefining small - scale industries: The investment limit to define SSI was increased to boost the development of this sector. in case of tiny sector the investment limit was raised to Rs 1 lakh for small scale unit the investment limit was raised from Rs 10 lakhs to Rs 20 lakh and for ancillaries from Rs 15 lakh to Rs 25 lakh.

Industrial policy, 1980 focused attention on the need for promoting competition in the domestic market, technological up gradation and modernization.

20.3 Era of Liberalization After 80s

After 1980,an era of liberalization started, and the trend was gradually to dilute the strict licensing system and allow more freedom to the entrepreneurs. The step that were taken in accordance with the policy including:

1) Re- endorsement of licenses: The capacity indicated in the licenses could be re- endorsed, provided it was 25 percent more than the licensed capacity (1984).

2) Liberalization of 1990: The measures were follows: (a) Exemption from licensing for specific new units.(b) Investment of foreign equity up to 40 percent was freely allowed. (c) location restrictions were removed.

20.3.1 Major features of Pre-1991 Industrial Policy

1) Protection to Indian Industries: Local industries were given shelter from international competition by introducing partial physical ban on the imports of product and high imports tariffs. protection from imports encouraged Indian industry to undertake the manufacture of a verity of products There was a ready market for all these products.

2) Imports- Substitution Policy: Government used its import policy for the healthy development of local industries. Barring the first few years after independence, the country was facing a shortage of foreign exchange , and so save scare foreign exchange imports- substitution policy was initiated i.e government encouraged the production of imported goods indigenously.

3) Financial infrastructure: In order to provide the financial infrastructure necessary for industries, the government set up a number of development banks . The principal faction of a development bank is to provide medium and long term investments . They have to also play a major role in promoting the growth of enterprise. With this objective, Government established the industrial finance corporation of India(IFCI)1948, Industrial credit and investment corporation of India (ICICI) 1955, Industrial Development Bank of India(IDBI)(1964),Industrial Reconstruction corporation of India(1971), Unit trust of India (UTI)1963, and the life insurance corporation of India (LIC).

4) **Control over Indian Industries:** Indian industries were highly regulated through legislations such as industrial licensing , MRTPAct, 1969 etc. These legislation restricted the production, expansion and pricing of almost all kinds of industries in the country.

5) Regulation on foreign capital under the foreign exchange and Regulation Act (FERA): FERA restricted foreign investment in a company to 40 percent. This ensured foreign investment in a companies with foreign collaboration remained in the hands of Indians. The restrictions were also imposed on technical collaboration and repartitions of foreign exchange by foreign investors.

6**) Encouragement to small industries**: Government encouraged small scale industries (SSI) by providing a number of support measures for its growth. Policy measures addressed the basic requirements of the SSI like credit, marketing, technology, entrepreneurship development, and financial and infrastructural support.

20.4 Post Reform Period of Industrial Policy

New Industrial Policy, 1991-With the gradual liberalization of the 1956 Industrial policy in the mid-eighties the tempo of industrial development started picking up. But the industry was still feeling the burden of many controls and regulations.

For a faster growth of industry, it was necessary that even these impediments should be removed. The new government by Shri Narasimha Rao, which took office in June 1991, announced a package of liberalization measures under its Industrial Policy on July 24, 1991.

Objectives:

The New Industrial Policy,1991 seeks to liberate the industry from the shackles of licensing system Drastically reduce the role of public sector and encourage foreign participation in India's industrial development. The broad objectives of New Industrial Policy are as follows:

(i) Liberalizing the industry from the regulatory devices such as licenses and controls.

(ii) Enhancing support to the small scale sector.

(iii) Increasing competitiveness of industries for the benefit of the common man.

(iv) Ensuring running of public enterprises on business lines and thus cutting their losses.

(v) Providing more incentives for industrialization of the backward areas, and

(vi) Ensuring rapid industrial development in a competitive environment.

The New Industrial Policy has made very significant changes in four main areas viz., industrial licensing role of public sector, foreign investment and technology and the MRTP act. The major provisions of this policy are discussed below.

(1) Abolition of Industrial Licensing:

In the earlier industrial policy, industries were subjected to tight regulation through the licensing system. Though some liberalization measures were introduced during 1980's that positively affected the growth of industry. Still industrial development remained constrained to a considerable extent. The new industrial policy abolishes the system of industrial licensing for most of the industries under this policy no licenses are required for setting up new industrial units or for substantial expansion in the capacity of the existing units, except for a short list of industries relating to country's security and strategic concerns, hazardous industries and industries causing environmental degradation.

To begin with, 18 industries were placed in this list of industries that require licenses. Through later amendment to the policy, this list was reduced. It now covers only five industries relating to health security and strategic concerns that require compulsory licensing. Thus the industry has been almost completely made free of the licensing provisions and the constraints attached with it.

(2) De-reservation of Industries for Public Sector:

The public sector which was conceived as a vehicle for rapid industrial development, largely failed to do the job assigned to it. Most public sector enterprises became symbols of inefficiency and imposed heavy burden on the government through their perpetual losses. Since a large field of industry was reserved exclusively for public sector where it remained a virtual non performer (except for a few units like the ONGC). The industrial development was thus the biggest casualty.

The new industrial policy seeks to limit the role of public sector and encourage private sector's participation over a wider field of industry. With this view, the following changes were made in the policy regarding public sector industries:

(i) Reduced reservation for public sector:

Out of the 17 industries reserved for the public sector under the 1956 industrial policy, the new policy de-reserved 9 industries and thus limited the scope of public sector to only 8 industries.

Later, a few more industries were de-reserved and now the exclusive area of the public sector remains confined to only 4 industrial sectors which are: (i) defence production, (ii) atomic energy, (iii) railways and (iv) minerals used in generation of atomic energy.

However, if need be even some of these areas can be opened up for the private sector. The public sector can also be allowed to set up units in areas that have now been thrown open for private sector, if the national interest so demands.

(ii) Efforts to revive loss making enterprise:

Those public enterprises which are chronically sick and making persistent losses would be returned to the Board of Industrial and Financial Reconstruction (BIFR) or similar other high level institutions created for this purpose. The BIFR or other such institutions will formulate schemes for rehabilitation and revival of such industrial units.

(iii) Disinvestment in selected public sector industrial units:

As a measure to raise large resources and introduce wider private participation in public sector units, the government would sell a part of its share holding of these industries to Mutual Funds, financial institutions, general public and workers.

For this purposes, the Government of India set up a 'Disinvestment Commission' in August 1996 which works out the modalities of disinvestment. On the basis of recommendations of the 'Disinvestment Commission' the government sells the shares of public enterprise.

(iv) Greater autonomy to public enterprises:

The New Industrial Policy seeks to give greater autonomy to the public enterprises in their day-to-day working. The trust would be on performance improvement of public enterprises through a mix of greater autonomy and more accountability.

(3) Liberalised Policy Towards Foreign Capital and Technology:

The inflow of foreign capital and import of technology was tightly regulated under the earlier Industrial policy. Each proposal of foreign investment was to be cleared by the Government in advance. Wherever foreign investment was allowed, the share of foreign equity was kept very low so that majority of ownership control remains with Indians. But such a policy kept the inflow of foreign capital very small and industrial development suffered for want of capital resources and technology. The July, 1991 Industrial policy made several concessions to encourage flow of foreign capital and technology into India, which are follows:

(i) Relaxation in Upper Limit of Foreign Investment:

The maximum limit of foreign equity participation was placed at 40 per cent in the total equity capital of industrial units which were open to foreign investments under the 1991 policy; this limit was raised to 51 per cent. 34 specified more industries were added to this list of 51 per cent foreign equity participation.

In some industries the ratio of foreign equity was raised to 74 percent. Foreign Direct Investments (FDI) was further liberalized and now 100 per cent foreign equity is permitted the case of mining, including coal and lignite, pollution control related equipment, projects for electricity generation, transmission and distribution, ports, harbors etc.

Recent decision taken to further liberalize FDI include permission for 100 per cent FDI in oil refining, all manufacturing activities in Special Economic Zones (SEZ's), some activities in telecom see tor etc.

(ii) Automatic Permission for Foreign Technology Agreement:

The New Industrial Policy states that automatic permission will be granted to foreign technology agreements in the high priority industries. Previously technology agreement by an Indian company with foreign parties for import of technology required advance clearance from the government.

This delayed the import of technology and hampered modernization of industries. Now the Indian companies could enter into technology agreements with foreign companies and import foreign technology for which permission would be automatically granted provided the agreements involved a lump sum payment of up to Rs. 1 crore and royalty up to 5 percent on domestic sales and 8 per cent on exports.

(4) Changes in the MRTP Act:

According to the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969, all big companies and large business houses (which had assets of Rs. 100 crores or more, according to the 1985 amendment to the Act) were required to obtain clearance from the MRTP Commission for setting up any new industrial unit, because such companies (called MRTP companies) were allowed to invest only in some selected industries.

Thus, besides obtaining a licence they were also required to get MRTP clearance. This was a big impediment for industrial development as the big business firms which had the resources for development could not grow and diversify their activities.

The Industrial Policy, 1991 has put these industries on par with others by abolishing those provisions of the MRTP Act which mediate mandatory for the large industrial houses to seek prior clearance from MRTP Commission for their new projects.

Under the amended Act, the MRTP Commission will concern itself only with the control of Monopolies and Restrictive Trade Practices that are unfair and restrict competition to the detriment of consumer s interests. No prior approval of or clearance from the MRTP Commission is now required for setting up industrial units by the large business houses.

(**5) Greater Support to Small-Scale Industries:**

The New Industrial Policy seeks to provide greater government support to the small-scale industries so that they may grow rapidly under environment of economic efficiency and technological up gradation. A package of measures announced in this context provides for setting up of an agency to ensure that credit needs of these industries are fully met.

It also allows for equity participation by the large industries in the small scale sector not exceeding 24 per cent of their total shareholding. This has been done with a view to provide small scale sector an access to the capital market and to encourage their up gradation and modernization the government would also encourage the production of parts and components required by the public sector industries in the small-scale sector.

(6) Other Provisions:

Besides above discussed measures, the Industrial Policy 1991 announced some more steps to promote rapid industrial development. It said that the government would set up a special board (which was established as Foreign Investments Promotion Board—FIPB) to negotiate with a number of international companies for direct investment in industries in India. It also announced the setting up of a fund (called National Renewal Fund) to provide social security to retrenched workers and provide relief and rehabilitate those workers who have been rendered unemployed due to technological changes.

The New Policy also removed the mandatory convertibility clause under which the Public Sector Financial Institution were asked to convert the loans given by them to private industries in equity (shares) and thus become partners in their management.

This removed a big threat to the private sector industries as they were always under threat that their management and control could pass on into the hands of the Government owned financial institutions.

20.5 Evaluation of the New Industrial Policy:

The New Industrial Policy 1991 aims to unshackle Indian's industrial economy from the cobwebs of unnecessary bureaucratic control. According to this policy the rate of the government should change from that of only exercising control over industries to that of helping it to grow rapidly by cutting down delays.

Removal of entry barriers and bringing about transparency in procedures. This policy therefore also at virtually ending the 'License-Permit Raj' which has hampered private initiative and industrial development. The new policy therefore throws almost the entire field of industry wide upon for the private sector.

The public sector's role has been confined largely to industries of defense, strategic and environmental concerns. Thus new policy is more market friendly and aims at making the best use of available entrepreneurial talent in a congenial industrial environment. The industry is thus expected to grow faster under the new industrial policy 1991.

20.6 Summary

In recent years, many state governments have undertaken significant procedural and policy reforms. In line with the liberalization undertaken by the Centre, most of the state governments have initiated reforms for promoting foreign investment, encouraging private participation in the development of ports, power generation and the development and management of industrial estates, restructuring of District Industrial Centers (DIC) and removing artificial barriers within states. Removal of entry barriers and bringing about transparency in procedures. This policy therefore also at virtually ending the 'License-Permit Raj' which has hampered private initiative and industrial development. The new policy therefore throws almost the entire field of industry wide upon for the private sector. The shift to a qualitatively new pattern of industrial growth cannot be possible without tacking the issue of surplus labour.it is therefore, desirable to evolve a new approach that recognizes the rights of labour era and provides suitable incentives to them.

20.7 Exercise

Q1. Explain the industrial policy meaning and industrial policy in pre reform period.

Q2. What do you mean by industrial policy and explain it with post reform period.

20.8 Suggested Readings

- Uma, Kalpa (2008),'Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.
- Prakesh, B.A.(2009),' Indian Economy Since 1991: Economic Reforms And Performance. Sage Publication New Delhi.
- Misra and Puri, Indian Economy, Himalayan Publication House, New Delhi.
- Ruddar Dutt and KPM Sundhram, Indian Economy, S. Chand and Co. New Delhi.

- Basu, Kaushik (2010); The Oxford Companion to Economics in India, Oxford University, Press New Delhi.
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LESSON-21

INDUSTRIAL POLICY- 2

Structure

21.0 Objective

21.1 Introduction

21.2 Industrial Licensing in India

21.3 Recent Amendment to Industrial Licensing Rule

21.4 Competition Act 2002

21.4.1 Salient Features of New Competition Policy

21.5 Foreign Exchange Management Act

21.5.1 Main Features of the FEMA

21.6 Review of Industrial Licensing in India

21.7 Impact of New Industrial Policy

21.8 Summary

21.9 Exercise

21.10 Glossary

21.11 Suggested Readings

21.0 Objective

- Know about the Industrial licensing in India
- Understanding the concept of Foreign Exchange Management Act

21.1 Introduction

Since the liberalization and deregulation of the Indian economy in 1991, most industries have been exempt from obtaining an industrial license to start manufacturing in India. Government attention is reserved only for those industries that may impact public health, safety, and national secure.

21.2 Industrial Licensing in India

In India, industrial licenses are regulated by the IDRA, 1951 Act, and are approved by the Secretarial of Industrial Assistance (SIA) on the recommendation of the licensing committee. The provisions of the Act restrict a licensed industrial undertaking from manufacturing a new article unless the license has been renewed or a new license has been obtained to include the new article.

Industries that require industrial licensing for manufacturing in India include: Industries under compulsory licensing; and, Industrial undertakings attracting locational restrictions. The licensing provision also applies to the expansion of the existing industrial units.

21.3 Recent Amendment to Industrial Licensing Rule

Earlier, large industries that manufactured items that were exclusively reserved for Micro, Small, and Medium Enterprises (MSME) also needed to obtain an industrial license. MSMEs were previously known as Small Scale Industry (SSI). The provision was aimed at protecting indigenous manufacturers from unequal competition with large scale industries.

However, in April 2015, the government de-reserved these items to encourage greater investment, incorporate better technologies, and enhance competition in the Indian and global market for the products.

Large industries are now permitted to manufacture items such as – bread, wood, firework, pickles and chutneys, mustard oil, groundnut oil, steel chairs and tables, padlocks, stainless steel and aluminum utensils, without obtaining an industrial license.

Industries subject to compulsory licensing in India. Businesses planning to establish industries to produce any of the following items in India must obtain a compulsory license:

- Distillation and brewing of alcoholic drinks;

- Cigars and cigarettes of tobacco and manufactured tobacco substitutes;

- Electronics and aerospace and defense equipment;

- Industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches; and

- Hazardous chemicals including items hazardous to human safety and health and thus fall for mandatory licensing.

These industries are under compulsory licensing mainly because of environmental, safety and strategic considerations. Compulsory licensing is regulated by the Ministry of Industrial Development.

Locational restrictions for industries in India

Under this provision, industries located within 25 kilometers of the periphery of cities having a population of at least one million, must obtain an industrial license from the federal government. This locational restriction does not apply in the following cases:

1) Industries manufacturing electronics, computer software and printing, or any other industry that may be classified as a ‘non-polluting industry’; Industries located in an area designated as an ‘industrial area’ before July 25, 1991.

2)The location of industrial units is subject to appropriate local zoning, land use regulations, as well as environmental regulations in order to maintain ecological discipline.

License registration for industries.

The application for registration must be made to the SIA, Department of Industrial Policy & Promotion (DIPP) along with a fee. The government issues the certificate only after due consideration. Once the license is obtained, an industrial undertaking is eligible for the allotment of controlled commodities and for the issuance of an import license for goods required for its construction and operation. Businesses can opt to register for an industrial license and IEM online at the government's e. website. They can also use the single window portal to obtain clearance from various governments and government agencies.

De-licensed industries in India

There is no exhaustive list of de-licensed industries specified by the DIPP. However, industries exempted from the provisions of industrial license must file an Industrial Entrepreneur's Memorandum (IEM) with the SIA, DIPP, and Ministry of Commerce & Industry.

21.4 Competition Act 2002

Since attaining Independence in 1947,India, for the better part of half a century thereafter, adopted and followed policies comprising what are known as Command-and-Control laws, rules, regulations and executive orders. The competition law of India, namely, the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act, for brief) was one such. It was in 1991 that widespread economic reforms were undertaken and consequently the march from Command-and-Control economy to an economy based more on free market principles commenced its stride. As is true of many countries, economic liberalization has taken root in India and the need for an effective competition regime has also been recognized.

In the context of the new economic policy paradigm, India has chosen to enact a new competition law called the Competition Act, 2002. The MRTP Act has metamorphosed into the new law, Competition Act, 2002. The new law is designed to repeal the extant MRTP Act. As of now, only a few provisions of the new law have been brought into force and the process of constituting the regulatory authority, namely, the Competition Commission of India under the new Act, is on. The remaining provisions of the new law will be brought into force in a phased manner. For the present, the outgoing law, MRTP Act, 1969 and the new law, Competition Act, 2002 are concurrently in force, though as mentioned above, only some provisions of the new law have been brought into force.

Competition Law for India was triggered by Articles 38 and 39 of the Constitution of India. These Articles are a part of the Directive Principles of State Policy. Pegging on the Directive Principles, the first Indian competition law was enacted in 1969 and was christened the Monopolies And Restrictive Trade Practices, 1969 (MRTP Act). Articles 38 and 39 of the Constitution of India mandate, inter alia, that the State shall strive to promote the welfare of the people by securing and protecting as effectively, as it may, a social order in which justice social, economic and political shall inform all the institutions of the national life, and the State shall, in particular, direct its policy towards securing.

1. That the ownership and control of material resources of the community are so distributed as best to sub serve the common good; and

2. That the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

In October 1999, the Government of India appointed a High Level Committee on Competition Policy and Competition Law to advise a modern competition law for the country in line with international developments and to suggest a legislative framework, which may entail a new law or appropriate amendments to the MRTP Act. The Committee presented its Competition Policy report to the Government in May 2000 [the report will be referred to hereinafter as High Level Committee (2000)]. The draft competition law was drafted and presented to the Government in November 2000. After some refinements, following extensive consultations and discussions with all interested parties, the Parliament passed in December 2002 the new law, namely, the Competition Act, 2002.

21.4.1 Salient Features Of New Competition Policy

The act covered the following features- (1) Anti-competitive Agreements, 2) Abuse of dominance

(1) Anti Competition Agreements

Firms enter into agreements, which may have the potential of restricting competition. A scan of the competition laws in the world will show that they make a distinction between horizontal and vertical agreements between firms. The former, namely the horizontal agreements are those among competitors and the latter, namely the vertical agreements are those relating to an actual or potential relationship of purchasing or selling to each other. A particularly pernicious type of horizontal agreements is the cartel. Vertical agreements are pernicious, if they are between firms in a position of dominance. Most competition laws view vertical agreements generally more leniently than horizontal agreements, as, prima facie, horizontal agreements are more likely to reduce competition than agreements between firms in a purchaser - seller relationship. An obvious example that comes to mind is an agreement between enterprises dealing in the same product or products. Such horizontal agreements, which include membership of cartels, are presumed to lead to unreasonable restrictions of competition and are therefore presumed to have an appreciable adverse effect on competition. In other words, they are per se illegal. The underlying principle in such presumption of illegality is that the agreements in question have an appreciable anti-competitive effect. Barring the aforesaid four types of agreements, all the others will be subject to the rule of reason test in the Act.

(2) Abuse of Dominance

Dominant Position has been appropriately defined in the Act in terms of the position of strength, enjoyed by an enterprise, in the relevant market, in India, which enables it to (i) operate independently of competitive forces prevailing in the relevant market; or (ii) affect its competitors or consumers or the relevant market, in its favor.

Section 4 enjoins, No enterprise shall abuse its dominant position. Dominant position is the position of strength enjoyed by an enterprise in the relevant market which enables it to operate independently of competitive forces prevailing in the market or affects its competitors or consumers or the relevant market in its favour. Dominant position is abused when an enterprise imposes unfair or discriminatory conditions in purchase or sale of goods or services or in the price in purchase or sale of goods or services. Again, the philosophy of the Competition Act is reflected in this provision, where it is clarified that a situation of monopoly per se is not against public policy but, rather, the use of the monopoly status such that it operates to the detriment of potential and actual competitors.

At this point it is worth mentioning that the Act does not prohibit or restrict enterprises from coming into dominance. There is no control whatsoever to prevent enterprises from coming into or acquiring position of dominance. All that the Act prohibits is the abuse of that dominant position. The Act therefore targets the abuse of dominance and not dominance per se. This is indeed a welcome step, a step towards a truly global and liberal economy.

3) The Act on Combinations Regulation

The Competition Act also is designed to regulate the operation and activities of combinations, a term, which contemplates acquisitions, mergers or amalgamations. Thus, the operation of the Competition Act is not confined to transactions strictly within the boundaries of India but also such transactions involving entities existing and/or established overseas. Here in again lies the key to understanding the Competition Act. The intent of the legislation is not to prevent the existence of a monopoly across the board. There is a realization in policy-making circles that in certain industries, the nature of their operations and economies of scale indeed dictate the creation of a monopoly in order to be able to operate and remain viable and profitable. This is in significant contrast to the philosophy, which propelled the operation and application of the MRTP Act, the trigger for which was the existence or impending creation of a monopoly situation in a sector of industry. The Act has made the pre-notification of combinations voluntary for the parties concerned. However, if the parties to the combination choose not to notify the CCI, as it is not mandatory to notify, they run the risk of a post-combination action by the CCI, if it is discovered subsequently, that the combination has an appreciable adverse effect on competition. There is a rider that the CCI shall not initiate an inquiry into a combination after the expiry of one year from the date on which the combination has taken effect.

4) Competition Advocacy

In line with the High Level Committee's recommendation, the Act extends the mandate of the Competition Commission of India beyond merely enforcing the law (High Level Committee, 2000). Competition advocacy creates a culture of competition. There are many possible valuable roles for competition advocacy, depending on a country's legal and economic circumstances.

The Regulatory Authority under the Act, namely, Competition Commission of India (CCI), in terms of the advocacy provisions in the Act, is enabled to participate in the formulation of the country's economic policies and to participate in the reviewing of laws related to competition at the instance of the Central Government. The Central Government can make a reference to the CCI for its opinion on the possible effect of a policy under formulation or of an existing law related to competition. The Commission will therefore be assuming the role of competition advocate, acting pro-actively to bring about Government policies that lower barriers to entry, that promote deregulation and trade liberalization and that promote competition in the market place. Perhaps one of the most crucial components of the Competition Act is contained in a single section under the chapter entitled competition advocacy.

21.5 Foreign Exchange Management Act

The Foreign Exchange Management Act (FEMA) was an act passed in the winter session of Parliament in 1999, which replaced Foreign Exchange Regulation Act. This act seeks to make offences related to foreign exchange civil offences. It extends to the whole of India.

The Foreign Exchange Regulation Act (FERA) of 1973 in India was replaced on June 2000 by the Foreign Exchange Management Act (FERA), which was passed in 1999. The FERA was passed in 1973 at a time when there was acute shortage of foreign exchange in the country. It had a controversial 27 years stint during which many bosses of the Indian corporate world found themselves at the mercy of the Enforcement Directorate. Moreover, any offence under FERA was a criminal offence liable to imprisonment. But FEMA makes offences relating to foreign civil offences. FEMA had become the need of the hour to support the pro- liberalization policies of the Government of India. The objective of the Act is to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments for promoting the orderly development and maintenance of foreign exchange market in India.

FEMA extends to the whole of India. It applies to all branches, offices and agencies outside India owned or controlled by a person, who is a resident of India and also to any contravention there under committed outside India by two people whom this Act applies.

21.5.1 Main Features of the FEMA:

The following are some of the important features of Foreign Exchange Management Act:

i. It is consistent with full current account convertibility and contains provisions for progressive liberalization of capital account transactions.

ii. It is more transparent in its application as it lays down the areas requiring specific permissions of the Reserve Bank/Government of India on acquisition/holding of foreign exchange.

iii. It classified the foreign exchange transactions in two categories, viz. capital account and current account transactions.

iv. It provides power to the Reserve Bank for specifying, in , consultation with the central government, the classes of capital account transactions and limits to which exchange is admissible for such transactions.

v. It gives full freedom to a person resident in India, who was earlier resident outside India, to hold/own/transfer any foreign security/immovable property situated outside India and acquired when s/he was resident.

vi. This act is a civil law and the contraventions of the Act provide for arrest only in exceptional cases.

vii. FEMA does not apply to Indian citizen's resident outside India.

21.6 Review of Industrial Licensing in India

Any government action aimed at affecting in-dustry may be considered to be part of indus-trial policy, which makes it a limitless field. It usually means government action to influence the ownership and structure of industry and its performance and it takes the form of pay-ing subsidies or providing finance in other ways, or of regulation. It excludes macroeco-nomic policies affecting industry, but it may be viewed as supporting macroeconomic policy by improving the performance of an important part of the supply side of the economy as a whole. The concept is, thus, a comprehensive one. It includes procedures, principles (i.e., the philosophy of a given economy), policies, rules and regulations, in-centives and punishments, the tariff policy, the labour policy, government's attitude towards foreign capital, etc.

The new Industrial Policy radi-cally differs from the fundamental Industrial Policy of 1956. It is said that these policy deci-sions of the Government are "a series of measures to unshackle the Indian industrial economy from the cobwebs of unnecessary bu-reaucratic controls." The new policy is a bolder step towards the process of deregulating the economy so that Indian industry becomes more competitive internally and internationally. The relicensing of a large number of in-dustries, scrapping the asset limit of the MRTP companies, and the abolition of registration schemes will free Indian entrepreneurs from needless controls.

This new policy has been hailed as a 'land-mark' in the opening up of the Indian economy. This policy is a great leap towards privatization. Under this new policy, like for-eign capital and multinational corporations, large industrial houses have been respected by the Government.

However, in earlier poli-cies, in the name of building up a socialistic pattern of society, the Government controlled and regulated private industrial houses through several important controlling devices. Thus, the Centre's new Industrial Policy pack-age will definitely strengthen the control of monopoly industrial houses in the country's landscape, thereby overthrowing the cher-ished goals of building a socialistic pattern of society.

The current Industrial Policy says that pri-vate sector rather than public sector— should be viewed as an 'ideal' institution for industrialization. That is why the policy has scrapped the asset limit for the MRTP compa-nies and abolished industrial licensing for all projects except for 18 (now 5) specific groups. But in India, private industrial houses are not deemed to be “ideal”.

These houses don’t have the minimum sense of social responsibility. Not only this, some of the private industrial houses, unlike public sector, also suffer from losses. It is alleged that these business houses often make their organizations ‘sick’ through ingenious means, just to win the financial doles from the government. Again, by build-ing up large industrial houses under the um-brella of the current policy, it is feared that the interests of the consumers are unlikely to be served.

The other area in which the government has taken a giant leap is with respect to for-eign participation in Indian companies and al-lowing access to foreign technology. But it is apprehended that most of the foreign invest-ment would be channelized in the direction of non-priority sectors rather than priority sectors.

It is a strange phenomenon that despite curbs on the coming of foreign capital in the past, a huge amount of foreign investment was made in such industries as cars, soft drinks, potato chips, etc. Thus, there is a serious threat of distortion of our industrial structure through the current Industrial Policy. It tilts more in favour of industries producing luxury goods. Finally, seeing the ills of the public sector for a couple of years, the Government, in its new Industrial Policy, went for privatization of the public sector. Privatization or the so- called part-privatization is not the solution to the ills of the public sector. Without diagnos-ing the problems and curing those, the policy envisages disinvestment of government eq-uity in the public sector.

Thus, the government’s statement of Industrial Policy has overnight altered the industrial scenario in India. The new policy is definitely a step towards privatization of In-dian industries. It is now up to the industry to show that it has the will and ability to respond.

21.7 Impact of New Industrial Policy

Positive impact

1) Knowledge Spillover – Industries have a certain degree of knowledge spillover effect on the economy. Degree of this effect varies from sector to sector. A new industry will attract requisite skill/talent/expertise which will multiply overtime. Further, there will be some ancillary industries which may come up to support such industries. In short, focusing on a certain industry can overtime result in to a whole industrial complex which derives synergies and economies from each other. For e.g. Defense Industry could be benefited immensely if aviation industry, Software, Higher educational, Space exploration capacities are fully developed. So India’s space program provides synergy to defense capacity.

2) Infant Industry – At time of Independence, India’s industry was nonexistent in most of the sectors and those existing were infant. They had low capacity to adapt new technologies or to exploit economies of scale. In this case government protection is desirable in initial stages, so that a competitive industry develops at latter stages. Without government support or protection many of the present competitive Industries, would never have come up. In short, these industries need protection from foreign competition.

3) Coordination Failure – An industry doesn't exist or survive in isolation. It needs other industries which feed to it raw materials at reasonable costs and quality. Further, many other industries that will act as customer are needed for survival of this industry. For e.g. Iron & Steel Industry is most important sector of economy. It is must for a competitive automobile sector, construction sector, Infrastructure, Capital goods machinery sector, Defense sector. On the other hand, Iron and steel sector can perform only if there is availability of coal and power. A good transport sector facilitates interaction and movement of goods in entire economy. In initial stages of an economy there's often a 'coordination failure', which government tries to address by industrial policy. In India this led to recognition of 'core industries' which have multiplier effect on the economy, these are – Iron & steel, Cement, Crude Oil, Gas, Petro Refining, Mining, Power, Fertilizers.

4) Informational Externalities – Setting up an Industry requires certain degree of confidence in future of the whole economy and that industry in particular. There is reasonable risk which results in reluctance on part of investors. This risk and uncertainty is high in case of 'first mover' in a newly opened sector. This is because markets for new product are unchartered and untested, so there's no reliable data or information on basis of which risk return calculus can be drawn. Consequently, governments hold hand of a few new units in that industry through industrial policy and then gradually leave them of their own. As we have seen in renewable energy sector.

5) Use of tariffs/non-tariff barriers and Subsidies – Tariffs are custom duty barriers which are used to protect domestic industry of a country from external competition. It renders costs of imported products artificially high and gives advantage to local manufacturers. Similarly there are quantitative restriction (non-tariff barriers) under which quotas are fixed limiting quantities of imports. In pre 1990 era, these both restrictions were extremely high. However, 'Structural Adjustment Plan' by International Monetary Fund and negotiations at WTO forced India to bring down these barriers

6) Example of automobile sector – India in past kept custom duties on automobiles as high as 100-200%. This gave domestic automobile industry an advantage and opportunity to exploit domestic markets. Now we have domestic industry which is globally competent. Products from Maruti-Suzuki, Mahindra, and Tata etc. are also exported to many countries. In contrast, Pakistan afforded foreign automobiles unrestricted (or less restricted) access to its markets from very beginning. Consequently, it doesn't have any competitive domestic Automobile manufacturing sector.

7) Another way of support is to provide subsidy, either on purchase, sale, or investment. Examples – for purchases farmers are provided subsidized fertilizers, for outputs they get price support and any investment in farm mechanization and processing industry is eligible for capital or interest subvention subsidy.

8) Import Substitution – Aforesaid policies are generally targeted toward 'import substitution'. This means imports are to be avoided and products are to be manufactured domestically, even if their costs are substantially higher or quality is lacking. This policy led to development of capacity in technology and innovation to great extent in India.

9) Reserved Industries – By this government reserves certain kind of strategic Industries for itself and others for Small scale sector (more on this later)Apart from these there are other controls such as Licensing Requirements, under which operations can be commenced only after license has been granted and terms of operation of business will depend upon those mentioned in license.

Negative impact

1) Influenced by Special Interests – There are always pressure groups in an economy that compete for resources of the government. They try to influence decisions of policy makers to corner a larger than deserved share of natural and economic resources. This way, often, personal interest prevails over national interest. This obviously creates avenues for corruption, rent seeking, patronage, 'quid pro queue' as seen in elections.

2) Knowledge Deficit – Any industrial policy requires prediction of future trends in an economy. Our experience tells us that an economy is toughest to predict and efforts of planning and policy making often end up being futile. There are different think tanks at national and international level that come out with different economic forecasts. Hence, policy makers' choice of forecast is a subjective one and success is only dependent upon other developments in economy.

3) Distortion of markets and production patterns – Government support distorts prices of products. Prices are signals which tell consumers and producers – what to consume and produce. So, due to government protection and support, producers fail to adopt latest technologies, new markets etc. This makes them uncompetitive. Ease of doing business ranking India makes highest ever jump to rank 100 out of 190 countries the survey conducted by the world bank in 2018.

21.8 Summary

During the decades of economic planning, industrial policy in India was characterized by controls, industrialization and abstinence. The economy that developed during this period came to be identified as the old economy. In recent years, many state governments have undertaken significant procedural and policy reforms. In line with the liberalization undertaken by the Centre, most of the state governments have initiated reforms for promoting foreign investment, encouraging private participation in the development of ports, power generation and the development and management of industrial estates, restructuring of District Industrial Centers (DIC) and removing artificial barriers within states. Other reform measures include decentralization of decision making, time bound clearance of projects and initiatives relating to privatization and closure of loss making state public sector enterprises. In keeping with India's federal structure, a number of investment incentives are also provided by the State Governments in addition to the benefits offered by the Central Government. While the incentive package varies from one state to another, depending upon its investment priorities, the package generally include an investment subsidy, tax breaks, exemption/deferent of sales tax and other duties and power tariff concessions. Complementary to industrial policy changes, significant transformation has been brought about in monetary fiscal and external sector policies. The changes include transition to market determined exchange rates and interest rates, removal of physical control on imports, rationalization and reduction of taxes and duties to enhance competitiveness of Indian industries.

21.9 Exercise

Q 1. State in brief the objectives of the industrial licensing system in India?.

Q 2. State in brief the provision of the industrial licensing system in India. ?

Q3. Explain the competition Act 2002 and FEMA?.

Q4 given the impact of industrial policy in India.?

Q5. State the features of new industrial policy, 1991 and give a critical evaluation of the policy.?

Q6. Rapid industrialization and diversification of the industrial structure have been the twin objectives of industrial policy of India. 'Enumerate?

21.10 Glossary

- **Industrial Policy:** The industrial policy means the procedures, principles, policies rules and regulations which control the industrial undertaking of the country and pattern of industrialization. It explains the approach of government in contest of development of industrial sector.
- **The Competition Act, 2002-** India has chosen to enact a new competition law called the Competition Act, 2002. The MRTP Act has metamorphosed into the new law, Competition Act, 2002. The new law is designed to repeal the extant MRTP Act. As of now, only a few provisions of the new law have been brought into force and the process of constituting the regulatory authority, namely, the Competition Commission of India under the new Act,
- **Liberalization (or liberalization)-** is a general term for any process whereby a state lifts restrictions on some private individual activities. Liberalization occurs when something which used to be banned is no longer banned, or when government regulations are relaxed. The term "liberalization" is most often used in discussing economic liberalization, which refers to the reduction of state involvement in the economy, but it can be used in other contexts as well.
- **MRTP Act, 1969**- agreement" includes any arrangement or understanding, whether or not it is intended that such agreement shall be enforceable (apart from any provision of this Act) by legal proceeding . An Act to provide that operation of the economic system does not result in the concentration of economic power to the common detriment, for the control of monopolies, for the prohibition of monopolistic and restrictive trade practices and for matters connected therewith or incidental thereto.

21.11 Suggested Readings

- Uma, Kalpa (2008),'Indian Economy: Performance and Policies, 8th ed. Academic Foundation, New Delhi.
- Prakesh, B.A.(2009),' Indian Economy Since 1991: Economic Reforms And Performance. Sage Publication New Delhi.
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- Ruddar Dutt and KPM Sundhram, Indian Economy, S. Chand and Co. New Delhi.
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- Gokarn, Subiret al, (2004): The Structure of Indian Industry, Oxford University Press, New Delhi.