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PG AND RESEARCH DEPARTMENT OF COMMERCE

INIDAN ECONOMY

UNIT-I
INIDAN ECONOMY

Introduction

India has become the fourth largest economy in the world due to a strong economic growth but still has a low per capita income, the Economic Survey revealed today.

Indian economy has got its distinct identity. The economy of the country is supported by a huge size of population, considerable size of area, wide variety of natural resources, existence of various productive sectors, growing size of market along with growing economic problems. A detailed study of Indian Economic has great importance to the students of economics in India because of its objectives, viz., analysis of the facts and causes of India's poverty and providing a workable solution to remove the poverty and misery of the million and laying down the right policies for a rapid and planned economic development. The objectives would require a careful study of the many aspects of the Indian economy and the multifarious problem of development.

UNDER DEVELOPMENT:

What do you mean by under-development? Or explain the concept of under- development.

The entire world economy has been broadly classified into two different groups:

(i) Developed economies &

(ii) Under-developed or Developing economies

An under- developed economy is encompassed by the problems of low level of income, mass poverty and huge problem of unemployment and under –employment.

According to Prof. Ragnar Nurkes "Compared with the advanced countries are under-equipped with capital in relation to their population and natural resources".

The U.N. experts defined a under-developed country as one' in which per-capita real income is low when compared with the per-capita real income of the U.S.A., Canada, Australia and Western Europe".

BASIC CHARACTERISTICS OF AN UNDER-DEVELOPED ECONOMY:

India is considered as an underdeveloped economy. In India, there exists poverty as well as unutilized natural resources. Moreover, most of the features of under- developed economy are more or less present in our economy. Thus Indian economy can be treated as one of the under-developed but developing economies of the world. It is, therefore, essential, to study the basic characteristics of the Indian economy.

1. Low Per-Capita Income

In India, the national income and per-capita income is very low. As per World Bank estimates, the per-capita income of India stood at &460 in 2000. Keeping aside a very few countries, this per-capita income figure in India is the lowest in the world an even it is lower than China. In 2000, the per-capital income figure in Switzerland was nearly 83 times, in U.S.A. about 74 times, in Germany about 56 times and in Japan about 74 times the per-capita income figure in India.

Countries	As on 2005	
	Exchange rate basis	Purchasing power basis
USA	43740	41950
Japan	39980	31410
UK	37600	32690
China	1740	6600
India	720	3460

2. Excessive Dependence of Agriculture

Majority of the population in underdeveloped countries depend on agriculture for their living. On an average 70 to 75 percent of population lives on agriculture, while it is only 2 to 5 percent in advanced countries. But contributes only 26.5 percent of the total national income in 2000-01. Thus, our agricultural sector is overburdened as the majority of the active population is depending on agriculture.

Country	Population engaged	GDP percentage % (2005 - 06)		
		Agriculture	Industry	Service
UK	2	1	26	73
USA	2	2	27	71
Japan	5	7	32	61
China	69	13	46	41
India	*65	21.7	24.1	54.2

3. High Rate of Population Growth

India is maintaining a very high rate of growth of population since 1950. This has resulted from a very high level of birth rates coupled with a falling level of death rates. In India, the rate of growth population has been gradually increasing from 1.31% during 1941 –50 to 1.93% during 1991-2001. The prime cause behind the rapid growth of population is the steep fall in death rate from 49 per thousand during 1911 to 25.8 per thousand in 2000. This imposes a great economic burden on the economy relating to food, clothing, housing, schooling, and health facilities etc, in greater magnitude.

4. Existence of Chronic Unemployment and Under-Employment

Rapid growth of population coupled with inadequate growth of secondary and service sectors are responsible for the occurrence of chronic unemployment and under employment problem in our country. In India, unemployment is structural one, unlike developed countries, which is of cyclical type. Here unemployment in India is the result of deficiency of capital.

Both rural and urban area of our country has been suffering from disguised and educated unemployment.

National statistical survey – 2001-2002 – 35 million people – 9.21
2002-2007 – 35 million added – 70 million 50%

5. Poor Rate of Capital Formation

The present rate of capital formation in India is very low. This low level of capital formation is due to weakness of the inducement to invest and also due to low propensity and capacity to save. As per Colin Clark's estimate, in order to maintain the same standard of living, India requires at least 14% level of gross capital formation. To achieve as high rate of economic growth and to improve the standard of living, a still higher rate of capital formation is much required in India.

	Gross domestic investment		Grow domestic saving (as per GDP)	
Country	1990	1999	1990	1999
Japan	32	29	33	30
Australia	21	22	21	21
Germany	23	21	23	23
USA	17	19	15	17
UK	19	16	17	15
India (2001 -2002)	25	26	22	24

6. Inequality in the Distribution of Wealth

The report of the RBI reveals that nearly 20 % of the household owing less than Rs.1000 worth of assets possesses only 0.7% of the total assets. Moreover, 51% of the household owing less than Rs 5000 worth of assets possessed barely 8% of the total assets. Lastly, the top 4% household possessing assets worth more than Rs. 50000 held more than 31% of the total assets. This shows high degree of assets concentration in the hands of very few powerful business houses in our country.

7. Low Level of Technology

The economy of our country is suffering from technological backwardness. Obsolete techniques of production are largely being applied in both the agricultural and industrial sectors. Thus due to the application of poor technology and lower skills, the productivity in both the agricultural and industrial sector of the country is very low.

8. Under-Utilization of Natural Resources

In respect of natural endowments India is considered as a very rich country. Various types of natural resources viz., land, water, minerals, forest and power resources are available in sufficient quantity in the various parts of the country. But due to its various inherent problems like inaccessible region, primitive techniques, shortage of capital, and small extent of market such huge resources remained largely under utilized. Until recently, India was not in position to develop even 5% of total hydropower potential of the country.

9. Lack of Infrastructure

Lack of infrastructure facilities is one of the serious problems from which the Indian economy has been suffering till today. These infrastructure facilities include transport and communication facilities, electricity generation and distribution, banking and credit facilities, economic organization, health and educational institution etc. Moreover, due to the absence of proper infra structural facilities, the development of agricultural and industry id suffered and the development potentials of different regions of the country largely remains under-utilized.

10. Low Level of Living

The standard of living of Indian people in general is considered as very low. Nearly 25 to 40% of the population in India suffers from malnutrition. The average protein content in the Indian diet is about 49% grains only per day. Moreover, the low calorie intake in Indian diet is another characteristic of low level of living.

Country	Per capita daily intake		
	Fats (gm)	Protein (gm)	Calories (gm)
India	45	59	2496
China	71	77	2897
Japan	83	96	2932
USA	143	112	3699
UK	141	93	3276

11. Poor Quality of Human Capital

Mass illiteracy is the root of this problem and illiteracy at the same time is retarding the process of economic growth of our country. As per 2001 census, 65.3% of the total population of Indian is literate and the rest 34.7% still remain illiterate. In most of the developed countries, the level of illiteracy is even below 3%. This problem leads to poor quality of human capital in the country.

Country	Level of education (2002)	Adult literacy % (2002)	Enrolment ratio (2001-2002)	Human development index rank (2004)
Canada	79.3	99	95	4
USA	77	99	92	8
Japan	81.5	99	84	9
France	78.9	99	91	16
UK	78.1	99	113	12
China	70.9	90	68	94
India	63.7	61.3	55	***126**

12. Demographic characteristics

The demographic characteristics of India are not all satisfactory rather these are associated with high density of population (324 per sq. km), a smaller proportion of the population in working age group (15-60 years) and a comparatively larger proportion of population in the minor age group of 0 – 15 years. Moreover, lower income level, low level of living including absence of balance diet and proper housing and medical facilities are responsible for low life expectancy of 56 years in India compared to developed countries.

CAUSES OF UNDER DEVELOPMENT OR OBSTACLES OR CONSTRAINTS OF ECONOMIC DEVELOPMENT:

The degree of under development in a country is mostly governed by various factors deeply rooted into the system. The following are some of the important causes and obstacles or constrains on the path of economic development of underdeveloped countries.

1. Colonial exploitation

In the initial part of their development process, more of the UDC's were under foreign dominations which had led to the huge colonial exploitation by the foreign rulers. Foreign rulers converted these economies as primary producing countries engaged in the production of raw materials only to be supplied to the ruler country at cheaper prices and also a patent market for the sale of the manufacturing products produced by the ruler country. They have also destroyed the cottage and small industries by adopting unfair competition. Foreign capitalists moistly invested their capital on mining, oil drilling and plantation industries where they exploited the domestic workers to the maximum extreme and remitted their profits to their parent country.

2. Market imperfections

Market imperfections if the form of immobility of factors, price rigidity, ignorance of market conditions, rigid social structure etc., have resulted serious obstacles in the path of economic development of UDC's. All these imperfections resulted in low level of output and low rate of productivity per worker. Due to these market imperfections, resources of these countries are mostly remain either unutilized or underutilized, leading to low output than the potential output.

3. Poor rate of saving and investment:

Another obstacle is poor rate of savings and investment. The rate of savings of these under developed countries remained very low, varying between 5 –9% only to their national income as compared to that of 15 – 22% in the developed countries. Under such a situation the rate of investment is low leading to low capital formation and low level of income.

4. Vicious circle of poverty

Vicious circle in UDC's represented by the low productivity. Vicious circle operates on demand side and the supply side.

On the demand side, low productivity results in low income, low demand, low investment and finally low productivity.

On the supply side, low productivity result in low income, low saving, low investment and finally low productivity.

5. Demonstration effect

Demonstration effect increases the propensity to consume and thereby reduces the rate of saving and investment. Here, the consumption level of individual is very much influenced by the standard of living or consumption habits of his neighbors, friends and relatives but not by its income alone. Ragner Nurkse had termed it as "International demonstration effect". Thus this international demonstration effect reduces the savings potential of the under developed countries and thereby create severe constrains on the path of their growth process.

6. Unsuitability in adopting modern technology

Under developed countries are facing peculiar problem in respect of adopting modern and latest technology. Due to abundant labour supply and scarcity of capital, such technologies become unsuitable for these countries. At the same time the existing poor technology of these under developed countries fails to raise the rate of productivity and also to bring them out of the vicious circle of poverty.

7. Population growth

In most of the under developed countries, the rate of growth of population varies between 2 to 3% per annum. Rapidly growing population slows down the rate and process of capital formation. Growing population increases the volume of consumption expenditure and thereby fails to increase the rate of saving and investment.

Growing population also results food problem, unemployment problem, poverty, inefficiency, lower productivity, low per-capital income and finally leads to under development of a country.

8. Inefficient agricultural sector

Agriculture dominates the economy of most of the under developed countries. Agricultural sector in these countries are suffering from primitive agricultural practices, lack of adequate inputs like fertilizers, HYV seeds and irrigation facilities, uneconomic holdings, and excessive dependence on agriculture. Under such a poor structure, the agricultural productivity in these countries is very poor. This is another major obstacle of growth.

9. Inefficient human resources

Inefficient and under developed human resources are also considered another major obstacle towards economic development of under developed countries. These countries suffer from surplus labour force but shortage of critical skill. Due top lack of adequate number of trained and skilled personnel, the production system remains backward. Thus, this dearth of critical skills and knowledge has resulted in under utilization and mis-utilization of physical capital leading to low productivity and higher cost structure of the production system.

10. Inadequate infrastructural facilities

Under developed countries are suffering from lack of adequate transportation and communication facilities, shortage of power supply, inadequate banking and financial facilities and other social overheads which are considered very important for attaining economic development.

MAJOR ISSUES OF DEVELOPMENT –ECONOMIC GROWTH AND HUMAN DEVELOPMENT:

India is an underdevelopment though a developing economy. Bulk of the population lives in conditions of poverty. Poverty is not only acute but also chronic. At the same time, there exist unutilized natural resources. The following are the major development issues in India:

1. **Low per capita income and low rate of economic growth:-**

   Few countries in the world, the per capita income of the Indian people is the lowest in the world. During 1990-2005. Indian economy has growth at the rate of over6 per cent per annum on GDP. This is helping India to reduce the gap of per capita GDP with development countries.

2. **High proportion of people below the poverty line:**

   Indian economy indicates a very high proportion of people below the poverty line. Dandekar and Rath showed that 40 per cent of rural population and 50 per cent of the urban population lived below the poverty line in 1967-68. Defining poverty line on the basis of norms of nutritional requirements, ie 2,400 calories per person per day for the rural areas and 2,100 calories per person for urban areas, the Sixth plan (1980-85) estimated the total number of persons living below the poverty line as 317 million for 1979-80, that is, 48 per cent of the total population.

3. **Low level of production efficiency due to inadequate nutrition and malnutrition:-**

   Nutrition influences economic development via raising the level of productivity, efficiency and intelligence of the community the National Sample Survey has estimates that about 56 per cent of the rural population suffer from inadequate nutrition as they do not get a calorie intake of 2,400 per day considered as a reasonable level of nutrition. The level of malnutrition in all expenditure groups was higher in the urban areas than in the rural areas.

4. **Imbalance between population, size, resources and capital:**

   A very important problem with affects economic development is the rapid growth of population 1.5 per cent per annum by during 2000-05 which is still high. A rising population imposes greater economic burdens and, consequently, society has to make a much greater efforts to initiate the process of growth.

Moreover, with a rising population, per capita availability of land and such other resources fixed in supply, declines.

5. Problem of Unemployment:

A major development issues in India is to eliminate unemployment and provide gainful employment to million of people without work. In 2001-02, India had an incidence of unemployment, under-employment of the order of 9.2 per cent.

The employment strategy of planned development will have to be directed,

(a) to adopt an employment intensive sectoral planning.
(b) to regulate technological change to protect and enhance employment and
(c) to promote area planning for full employment.

6. Instability of output of agriculture and related sectors:-

One of the major problems of Indian economy is the uncertainty of agricultural production, since agriculture is still a gamble in the monsoons. Since Independence, there has been considerable increase in the production of the agricultural sector. For example, between 1950-51 and 2003-04 production of food grains increased from 54 million tones to 213 million tones between 1961 and 2003-04, production of Wheat has increased spectacularly from 11 million tones to 72 million tones.

7. Imbalance between heavy industry and wage goods:-

In the post-independence period, as a matter of give a boost to heavy industry. So as to build the industrial base of the economy.

As a result of the stepping up of investment in the heavy industry sectors, a was rightly done, it was quite natural that the share of wage goods sector in total investment fell from 41 per cent in 1950-51 to 31 per cent in 1974-75.

8. Imbalance in distribution and growing inequalities:-

There have been growing inequalities of income and wealth in India during the last five decades of planned economic development, redistribution of income in favour of the less privileged classes has not taken place.

The condition of the bottom 20 percent of the population has definitely deteriorated and the next 20 per cent of the population has remained stagnant.

<u>Various stages of economic development given by Rostow:</u>

Many economists have contributed a lot towards the concept of development and philosophy of growth. But the most widely accepted and also most popular sequence of economic development was given by *Prof. W. W. Rostow,* a specialist in economic development and growth.

Prof. *W.W.Rostow* has divided the economic development and growth into *five different and distinct stages* and explained them on the basis of an analogy of an aeroplane. The *five stages* envisaged by this Economist are;

1. The Traditional Society

A traditional society is one whose structure is developed with limited production functions not having any access to modern science or technology. The following are the major features of a traditional society.

- Agriculture is the predominant occupation for the majority and it will be in backward stage.
- The social set up is based on a family and caste system. Fatalistic attitude invariably stands in the way of rational decision and economic progress.
- Political power remains concentrated in the hands of dominant social groups.
- Science and technology are almost unknown and people remain ignorant about the development avenues.
- Economic activities would depend on the whims of dominant social groups.

2. Pre-condition to take off

The precondition to take off stage actually refers to a stage where in all the factors of production- labour, capital and organizations are mobilized.

Improved techniques are applied in the process of production.

Radical changes will take place in transport and communication to widen the market and exploit natural resources productively.

Agriculture will witness technological revolution and there will be an expansion of foreign trade as well.

There is a rise in the investment to a level which regularly substantially and perceptibly outstrips population growth.

3. Take off

- This period lasts for about two or three decades.
- It is a phase of economic revolution in which an economy hold self sustaining and self generating economic growth.
- Government policy will be conducive to developmental efforts.
- New innovations and techniques of production processing higher rates of growth in the primary growth sectors.

4. Drive to Maturity

- This stage is the resultant of take-off and in this stage the new leading sectors gather momentum. This leads to an increased output surpassing the increase in population.
- The economy finds its position in the international economy.
- Goods which were imported earlier are produced in the country and "the make up of the economy changes increasingly as techniques improves".

5. The Age of High Mass Consumption

- This is the last stage in which the per-capita real income is increasing.
- The economy demonstrates its technological and entrepreneurial superiority.
- It is the stage of automobiles, durable consumer goods and electronic gadgets.
- Poverty and hunger are something that could be read only in books.
- There would be continued stage of full employment and everyone would have increased financial security.

Only U.S.A. and U.K. and some of the Western countries have reached this stage of high mass consumption. United States was the first country to reach this stage in 1920 followed by Great Britain.

VARIOUS DETERMINANTS OF ECONOMIC DEVELOPMENT: ECONOMIC AND NON-ECONOMIC FACTORS:

By economic development we mean attainment of higher level of productivity in mal most all the sectors and a better level of living for the general masses. The path of economic development in an under developed countries is full of hurdles or impediments. The following are some of the important economic and non economic factors determining the pace of economic development in a country.

I. Economic factors

1. Population and manpower resources

Population is considered as an important determinant of economic growth. Firstly, population provides labour and entrepreneurship as an important factor service. Natural resources of the country can be properly exploited with manpower resources with proper human capital formation, increasing mobility and division of labour, manpower resources can provide useful support to economic development.

2. Natural resources and its utilization

Availability of natural resources and its proper utilization are considered as an important determinant of economic development. Mere possession of natural resources, cannot work as a determinant of economic development. In spite of having huge variety of natural resources, countries of Asia and Africa could not attain higher level of development due to lack of its proper utilization.

3. Capital formation and capital accumulation

The increase in the volume of capital formation leads to capital accumulation. In an economy, capital accumulation can help to attain faster economic development in the following manner.

- Capital plays a diversified role in raising the volume of national output through changes in the scale or technology of production.
- Capital accumulation is quite essential to provide necessary tools and inputs for raising the volume of production and also to increase employment opportunities for growing number of labour force.
- Increase in capital accumulation at a faster rate results increased supply of tools and machinery per worker.

In order to attain a rapid economic growth, the rate of domestic savings and investments must be raised to 20 per cent.

4. Capital – output ratio

By capital output ratio we mean number of units of capital required to produce per unit of output. It also refers to productivity of capital of different sectors at a definite point of time. Moreover, capital output ratio along with national savings ration can determine the rate of growth of national income.

Rate of growth of GNP = (savings ratio / capital - output ratio)

This is simplified version of Harrod–Domar model. This equation shows that rate of growth of GNP is directly related to savings ration and inversely related to capital output ratio.

5. Occupational structure

Too much dependence on agricultural sector is not an encouraging situation for economic development. Increasing pressure of working population on agriculture and other primary occupation must be shifted gradually to the secondary and territory or service sector through gradual development of these sectors.

II. Non- economic factors

1. Spread of education

Economic progress is very much associated with the spread of education. Prof. Krause has observed that," education brings revolutions in ideas for economic progress". Education provided stimulus to economic growth as it teaches honesty, patriotism and adventure. Thus education is working as an engine for economic development. So, education plays pioneer role for the creation of human capital and social progress which in turn determines the progress of the country.

2. Changes in social and institutional factors

Conservative and right social and institutional set up like joint family system, caste system, traditional values of life, irrational behaviour etc., put severe obstacle on the path of economic development and also retards its pace. Thus to bring social and institutional changes to realize the morel values of life are very much important for accelerating the pace of economic development in a country.

3. Proper maintenance of law and order

Political stability, peace, protection from external aggression and legal protection generally raises morality, initiative and entrepreneurship. Formulation of proper monetary and fiscal policy by an efficient govt. can produce necessary climate for increased investment and also can stimulate capital formulation in the country.

But the economy of under developed countries is now facing serious threat from large scale disorder, terrorism, disturbances in the international border etc. All these have led to diversion of resources and initiatives from developmental to non-developmental ends.

4. Administrative efficiency

Economic development of a country also demands existence of a strong, honest, efficient and competent administrative machinery for the successful implementation of government policies and programmes. Prof. Lewis has rightly observed, "the behaviour of the government plays an important role in stimulation or discouraging of economic activity".

CONCEPTS OF GROWTH AND DEVELOPMENT

Economic growth and economic development may be considered as two sides of the same coin. Writers on "Economic development and economic growth" make use of those two terms as interchangeable and also synonymous. But there are few writers who make specific distinction between these two expressions and concepts.

What is economic development?

Everyone knows that economic development indicates a process of development in the economy, where by there will be development in agriculture, industry, trade and transport. All these improvements put together is referred to as economic development of the country. The term development does not mean a mere description of any isolated development project like construction of a dam or starting a sugar factory somewhere in the country. The development Programmes should be a comprehensive one, as a process in all the sectors of the economy. This process will result in increased output of the economy or real income in the income per head of population.

According to Merier and Baldwin," process whereby an economy's real national income increases over a long period of time".

What is economic growth?

By economic growth we mean transformation of the economy from the state of underdevelopment to the state of development, i.e., from an agrarian to a highly industrialized economy, from a very low rate of saving to a high rate of savings, from a basically rural to a pre dominantly urbanized society and from a poor export sector to a highly developed export sector. All these transformation have resulted a sustained and steady increase in national income and per-capita income. Therefore, economic growth is best measured by the increase in the rate of real national income of the country

Distinguish between economic development and economic growth.

ECONOMIC DEVELOPMENT	ECONOMIC GROWTH
1. Economic development is the process.	1. Economic growth is the result. It is the end-product of the long process of development.
2. Economic development is a process whereby an economy's real national income increases.	2. Economic growth is the sustained increase in national income of the economy.
3. Economic development is related to only under developed or less developed countries.	3. Economic growth is associated with developed countries.
4. Economic development is a conscious and comprehensive action to lift the country from the morass of stagnation.	4. On the other hand, economic growth aims at increasing growth rate higher and higher, i.e., the net national product (NNP) would be ever increasing.

The difference between economic development and economic growth can be illustrated by means of a simple example. Suppose, a particular region does not have the railway system at all and transport is carried on by human porters and animals. To introduce the railway system in that region is not an easy task. Lands have to be acquired, railway lines have to be planned and land, stations have to be constructed, signaling system has to be installed, rolling stock should be got ready, men should be trained to make the first train more on the rails. For this, enormous money, materials and labour should be utilized to introduce the railway system. The entire work is a process by which the railway system is introduced. This is analogous to economic development. .

UNIT – I END

Reference:

1. Indian Economics – Ruddar Datt and K.P.M. Sundharam
2. Indian Economics – Dr. S.Sankaran

Human resources and its development for economic progress have been attracting the attention of modern economists and administrators. Many economists like Adam Smith, Malthus and Ricardo have shown their interest towards population problem.

What do you mean by Human Resource?

By the term human resource we mean the size of population of a country along with its efficiency, educational qualities, productivity, organizational abilities and farsightedness. By human resource we mean human capital. Human capital implies the abilities, skills and technical know how among the population of the country. A country should introduce man power planning for the development of its human resources.

What are the various concepts relating to Human Resource or Population?

The following are the important concepts relating to human resource.

1. Birth rate and death rate
2. Infant mortality rate (IMR)
3. Total Fertility Rate (TFR)
4. Density of population
5. Sex composition
6. Life expectancy
7. Literacy rate

These will be discussed in detailed below.

1. Birth Rate and Death Rate

Birth rate represents statistics regarding the average number of birth per thousand of population. Birth rate represents the fertility which again depends upon;

- The age at which females normally marry
- Duration of the period of their fertile union
- The rapidity with which the families are being built.

World birth rate is 21/1000 (2001)

India – 26.4/1000 and 22.22/1000 (July 2008).

Death rate represents the average number of death per thousand of population is also considered another important demographic statistics. From the very beginning of the present century the death rate in India was very high.

India – 9.0/1000 (2001) and 6.4/1000 (2008)

2. Infant Mortality Rate (IMR)

Infant mortality rate represents another important demographic statistics regarding the average number of death per thousand of children born within their age of one year. The infant mortality rate in India was as high as 200 per thousand in the early period. The rate of infant mortality increases when the maturity occurs repeatedly and in quick succession.

India – 32.31 /1000 (2008)

Male – 36.94/1000

Female – 27.12/1000

3. Total Fertility Rate (TFR)

Total fertility rate stands for the number of children that would be born to a women if she were to live to the end of her child bearing years and bear children at each age in accordance with prevailing age-specific fertility rate, with the implementation of family welfare programmes, the total fertility rate in India has declined from 4.5 in 1981 to 3.5 in 1993 and then to 3.31 in 2001.

India – 2.76 children born / woman (2008).

4. Density of Population

Density of population implies the average number of persons living per Sq .km of area within the territory of the country. Normally, density of population is very high in the urban and industrialized areas and it is quite low in rural areas. In 2001, the density of population is 324 persons per sq. km. Delhi is the leading high density populated area with 9,294 persons per sq. km in 2001.

5. Sex Composition

Sex composition of population is another important characteristics of India's population. It is generally observed that all over the world there is an excess of male births over female births. It refers (denotes) to number of female per 1000 males . In 2001, the number of females per 1000 males in India were 933.

India – 972 (1901)
946(1951)
933(2001)
940 (2011)

Kerala – 1058/1000 male (highest in India)

6. Life Expectancy

The average life expectancy at birth in India has been gradually increasing. The average life expectancy which was 41.2 years in 1951-61 gradually increased to 63.9 years in 2001. This increase in the life expectancy has become possible due to fall in the infant mortality rate.

India – 69.25 (2008)
Male – 66.87(2008)
Female – 71.9(2008)

7. Literacy Rate

The quality of population can be assessed properly from the level of literacy attained by it. In India, the level of literacy which was only 18.53 in 1951 gradually increased to 64.84 % in 2001.

India – 64.84 (2001)
Male – 75.8 (2001)
Female – 52.1 (2001)
China – 90.90(2001)

Explain the theory of Demographic Transition.

The theory of demographic transition mention three different stages of change in birth and death rate in connection with economic development . The following are the stages of demographic transition.

Stage -1: HIGH BIRTH AND DEATH RATES

The birth rates are very high due to universal and early marriage, widespread prevalence of illiteracy, traditional social belief, and customs, absence of knowledge about family planning techniques , attitudes towards children for supplementing family income etc.

The death rates are also high due to insufficient diets and absence of adequate medical and sanitation facilities.

Stage -2 : HIGH BIRTH AND LOW DEATH RATES

With the gradual attainment of economic development, the living condition of people started improve due to better and regular diet, better medical and sanitation facilities leading to fall in the death rates, regular food supply, improved law and order situation, medical innovations and advancement, development of antibiotics, vaccines and introduction of immunization programmes have led to substantial reduction in the incidence of disease and death.

But at this stage, the birth rate continues to remain very high in spite of substantial fall in death rates leading to accelerated growth of population.

India is now in the second stage of demographic transition where it has been able to reduce the death rate considerably but is facing a steady fall in its birth rate.

Stage -3: LOW BIRTH AND DEATH RATES

This stage is known as the stage of stationary population leading to a very little growth in population. Due to attainment of economic development, standard of living of the people reaches the high level during this stage. A significant change in social outlook of the people has taken place under the impact of urbanization, industrialization and high rate of literacy. As for example, the rate of growth of population in various countries stood at 0.1% in Germany, 0.2% in U.K. and Italy, 0.4% in Japan, 0.7% in U.S.A and 0.0% in Romania and Ireland.

Write a note on the Size and Growth Rate of Population in India.

As far as the size of population is concerned, India ranks second in the world next only to china. India’s land scape is just 2.4 per cent of the total world area, whereas its population is nearly 16.85 per cent of the world population. India accounted for 19.96 per cent of the estimated population of developing countries in 2001 (5.18 billion). The national income of India is presently even less than 1.2 per cent of the total world income.

The rate of population growth was 2.2 per cent per annum during 1961-71 which was still higher than that in the preceding decade. The following details clearly explain the size and growth of population in India.

- As per the Indian census, the population of India has grown with an accelerated pace from 1901.
- In the year 1901, the population of India was 238,396,327;

- In the year 1911 it was 252,093,390;
- In 1921 it was 251,321,213;
- In 1931 the population was 278,977,238;
- In 1941 it was 318,660,580;
- In 1951 it were 361,088,090 and just imagine in the year 2001 the population of India has just rose above billion, a head count of about 1,028,737,436.
- In a span of 100 years, Indian population has raised from 238,396,327 in 1901 to about 1,028,737,436 in 2001.
- With such a rapid growth of population, it's difficult to state what would be population of India in the next century. Since 1991, the population of India had risen by 21.34%.
- The state having the highest population according to the 2001 census is West Bengal with a population density of about 325 persons per sq. km and the lowest population density is 903 persons per sq km found in Arunachal Pradesh. Delhi, the capital of India has a population density of about 9,340 persons per sq km.
- The major reason of population growth in India was illiteracy but as the literacy rate is improving, another factor has taken over the position of being the most contributive factor for population growth. This factor is the availability of increased medical facilities that has eventually reduced the mortality rate.
- Indian population is soon to take over the population of China and be the largest populated country of the world.
- Urbanization and globalization has resulted an accelerated pace of population growth in India. This highly accelerated pace of growth has made the Indian cities too large for industrial establishments and economic activities, eventually resulting in disorganized allocation of the country's valuable resources.
- With such an inefficient allocation, the incidence of mass poverty, under-employment, hunger, and unemployment has hugely taken over the country's economic growth.
- In 1947, when the country gained independence, the population of India was about 350 million and today it is almost tripled. As per the results of the March 2001 census, the total population of India is considered to 1.029 billion, representing nearly about 17% of the total earth's population.
- The sex ratio has also reduced down from an estimate of 945 females every 1,000 males in 1991 to nearly about 927 females in 2001. With such a huge population, today, India is considered to be the second largest country after China in terms of population growth.
- The main reason for such an accelerated growth of population is lack of education among villagers and low-class people which is leading to increased fertility rate.
- In the year, 1950 fertility rate was about 6. It is unbelievable but it's true that earlier one woman used to deliver 6 - 7 children. Further, Government of India imposed some policies to reduce this fertility rate.
- Even though the government had put strict policies, fertility rate was not reduced until 2001. There was not much a difference but then too most of the women restricted their deliveries to a maximum of three.
- Another main factor that contributed to the increased population growth is the family structure, where teenage marriage was a common thing.
- It is believed that increasing factors and accelerated growth will overtake the population of China in the next 30 years. India is soon to have a higher population rate than China, and then it will have a tag of being the largest populated country on earth.

Explain the population growth as a Retarding Factor To Economic Development in India.

A group of economists are of the opinion that if the existing size of population is already too high then the rapid growing population retards the process of development of the country. It is explained from the following points.

1. Population and Per Capital Income

In India rapidly growing population is working as a retarding factor in raising its per-capita income. During the period from 1960-61 to 1988-89 although the net national product at factor cost (at 1980-81 prices) increased by 184% but due increase in the size of population by 80%, the per capital NNP increased by only 54%. Thus, the high rate of growth of population in India is standing as a retarding factor in the path of its increasing level of per-capita income.

2. Population and Supply of Food

Rapidly growing population in a country can create serious food crisis leading to huge import of food grains from foreign countries and a consequent loss of previous foreign exchange which would have been used otherwise for development purposes. Moreover, as major portion of the increase in population is recorded in rural areas thus, it enhances the family consumption of food leading to a reduction in its marketable surplus.

Year	Population in million	Available food grains (MT)	Per capita availability (GMS)
1956	397	63	431
1984	738	128	478
1991	851	159	510
2000	1014	168	454
2002	1001	189	494

3. Burden of Unproductive Consumers

A high birth rate contributes towards only high proportion of unproductive population without making any contribution to the production system and enhances the dependency ratio of non workers to workers. Unproductive consumers include children old persons and those voluntarily unemployed persons in 15-59 age group.

Year	Productive consumers		Unproductive consumers	
1961	183	43	256	57
1971	175	34.2	372	65
1981	220	37.6	464	62.4
1991	315	37.6	529	62.4
2001	402	39.2	623	68.8

4. Population and Unemployment

Rapidly rising population is aggravating the unemployment problem in the country crating large scale unemployment in the urban areas as well as a huge extent of disquised unemployment in the rural areas. The ninth plan (1997-02) has estimated the total backlog of unemployment as 36.8 million in 1996.

Year	Unemployed (M)	Rate of unemployment
1993-94	20.13	6%
1999-00	26.58	7.32%
End of ninth plan	36.8	-

5. Population and Burden of Education, Housing and Medical Care

Rapidly rising population increases the number of children in the school going age and raises the enrolment of students in college and university education. All these increase the expenditure on education. This is a type of situation we a re facing in India.

Moreover, the rising population in India is also increasing the burden of enhanced expenditure on medical care, public health and housing accommodation.

Expenditure per pupil – Rs. 144 per year

Educational expenditure – 1991 (6-14 age group) – Rs. 3010 crore per year.

6. Population and Capacity to Save and Invest

A fast growing population reduces the nations capacity to save and invest. In a huge family, the burden of dependency is much higher which in turn reduces its savings capacity. Thus, the rapidly rising population reduces th capacity as well as the ration of savings and investment in a country which always goes against the strategy of development.

7. Population and Capital Formation

Mr. Zaiden of the London school of economics though this detailed study, observed that for maintaining the per-capita income at a constant level the developed countries have been devoting 25% of their total investment which accounts to nearly 5% of their GNP whereas the less developed countries like India, Brazil, Morocco, Columbia, Ghana etc, devoting about 65%of their total investment which accounts to more than 10% of their GNP.

8. Low Efficiency

High rate of growth of population in India is associated with the problems like low level of per-capita income and low standard of living. All these reduced the efficiency of labour which, in turn lowers their productivity and hampers the pace of economic development of the country as well.

Thus, from the foregoing analysis, we can observe that high rate of growth of population is working as a serious retarding factor in the path of economic development and thus reduced the pace of economic development of the country.

<u>Analyze the Causes of High Rate of Growth of Population in India.</u>

India is experiencing a very high rate of growth of population since the middle part of the present century. The following are some of the major factor which are responsible for this high rate of growth of population in India.

I. Economic Factors

Poverty
Predominance of agriculture
Slow pace of urbanization

1. Poverty

Poverty coupled with other associated factors such as poor diet, illiteracy, ill health etc., normally raise the birth rate at a high level in most of the under developed countries. A poor man always welcome further addition to his family size for supplementing his family income. This has led to the high rate of growth of population in India.

2. Predominance of Agriculture

In India, the occupational structure of the population has not changed much with the adoption of developmental strategy continuing since last four decades. More than two thirds of the working population are still engaged in agriculture. In an agrarian society children's are never considered as an economic burden rather they are supporting various agricultural activities during the peak period.

3. Slow Pace of Urbanization

The pace of urbanization in India is very slow. The proportion of urban population out of the total population was only 27.8% in 2001 as against 17.6% in 1951. Urban population is more conscious about the economic burden of a larger family sizes and urbanization disintegrates the joint family system. Moreover, urbanization is coupled with lot of specific problems like housing problems, increased cost of living, high cost of up bring of children. In India, due to poor rate of industrialization, the pace of urbanization is very slow and thus it failed to create any impact on reduction of birth rate.

II. Social Factors

1. Universality of marriage
2. Practice of early marriage
3. Illiteracy
4. Religious and social attitude

1. Universality of Marriage

Marriage is universal in India as it is a religious and social necessity of the country. Parents feel that it is their social obligation to arrange marriage for the daughters. Here, this has resulted a very birth rate.

2. Practice of Early Marriage

Practice of early marriage is very mush common in various parts of the country and the average age of marriage is still around 128 years. Between the age of 15 to 20 years, more than 8 out of every 10 girls got married in India. Thus the practice of early marriage raises the span of reproductive.

3. Illiteracy

It has been observed by most of the economists that spread of education alone can change the attitude of the people towards marriage, family, birth of a child etc., and help the people to shed irrational ideas and religious superstitions. Further due to lack of education, the response of rural population in respect of adoption of family planning norms and use of contraceptives are not at all encouraging.

4. Religious and Social Attitude

Religious and social attitude of the India people induces to prefer large families. The idea to have sons and daughters for performing religious rites and to earn religious merit are still very much common in Indian society. Moreover, social attitudes towards unmarried men and women and childless couple are not very encouraging.

III. Biological Factors

1. Sharp fall in death rate and
2. Sharp rise in birth rate

1. Sharp Fall in Death Rate

The factors which have largely contributed to this sharp fall in the death rate include- removal of famines lading to eradication of starvation, death, control of epidemics arising through cholera and small pox, decline in the incidence of malaria and tuberculosis and some other factors like improvement in public health measures like drinking water supply, improved hygienic and sanitation facilities and the improvement of medical and hospital facilities. All those factors had led to sudden fall in the death rate in recent years.

2. Sharp Rise in Birth Rate

During the first half of the present century, the birth rate in India did not fall substantially. The birth rate in India declined marginally for 49.2 per thousand in 1901-11 to 41.7 in 1951-56 and then to 27.4 per thousand in 1996. Due to this maintenance of birth rate to a very high level, the rate of growth of population in India remained all along high.

List out the Remedial Measures to Control the Growth of Population in India.

The following are the remedial measures of control of population in India.

I. Economic measures

1. Modernization of agriculture
2. Industrial development
3. Urbanization and more employment
4. Removal of poverty

Remedial Measures to Control the Growth of Population in India:

1. Modernization of agriculture:

In India, primitive method of agriculture is still being followed in various part so the country. The modernized improved methods should be introduced throughout the country for rising its productivity. Increased agricultural productivity rises the standard of living of the rural people which will again reduces the birth rate indirectly.

2. Industrial development

Industrialization of our country can transfer the surplus working force from agriculture to other sectors. Moreover, growing industrial activity can also increase the urge of industrial workers to raise their standard of living which in turn will motivate them to restrict the size of their family.

3. Urbanization and more employment

Create opportunities in urban areas. Steps must be taken for the growth of urban centers in the country along with the creation of more job opportunities in these urban areas. This will lead to migration of population from rural to urban areas which will indirectly work as a powerful check on the growth of population in India.

4. Removal of poverty

Poor people normally remain unconcerned about limiting the size of their families. Thus, proper steps should be taken by the government for the removal of poverty in India. Once the poor people are assured of basic economic amenities of life their attitude towards their families will also undergo a sea change.

II. Social Measures

1. Postponement of the marriage
2. Spread of education
3. Improving the status of women

1. Postponement of the marriage

The raising of the minimum age of marriage both though legislation and arousing consciousness can play an effective role in checking population growth by reducing the effective child bearing period and particularly knocking off the most fertile period from the point of child bearing.

2. Spread of education

Spread of education can play an effective role in checking the growth rate of population in India. Education and general enlightenment of the people can create desire for smaller families through family planning programmes.

3. Improving the status of women

In India, women more particularly rural women are enjoying a poor social status. Increasing employment of women and the improvement of their social status can effectively reduce the birth rate of population in India.

III. Family planning measures

1. Arousing consciousness
2. Introducing norms
3. Incentives and disincentives
4. To stop influx of population

1. Arousing consciousness

Through public information programme, people of India should be made more conscious about the usefulness of family planning programme. All media of publicity should be used for this purpose.

2. Introducing norms:

The government of India should approve the two-child norm and put sever restriction on limiting the size of family as it is done in china.

3. Incentives and disincentives

The government should introduce various incentive schemes for adopting small family norm such as cash incentive, preference for employment, preference for promotion etc., likewise in respect of the violation of family planning norms; disincentive schemes should be introduced for withdrawing these incentives totally.

4. To stop influx of population

A significant portion of the increase in the population of the country is due to continuous immigration of population from the neighboring countries. Thus this influx of population in the form of infiltration should be stopped completely and proper steps should be devised to check these huge scale infiltrations.

POPULATION POLICY

POPULATION POLICY FOLLOWED BY OUR GOVERNMENT.

The significance of the growth in population can be judged from the fact that decade 1991 – 2001, there has been an increase of about 183 million reaching a level of 1,027 million in 2001. The alarming rate at which population is growing calls forth the need for a positive population policy to restrict this rapid growth of population.

As the country is passing through a phase of population explosion, thus the adoption of more positive and effective policy of population control is very much required in India.

A sound population policy should possess the following *short- term and long term objectives*.

- Significant reduction in the birth rate.
- To stabilize the population through fall in death rate.
- To improve the quality of population.
- To raise the phase of economic development and the rate of growth of per-capita income.
- To integrate population with economic planning of the country.

Features

The following are some of the important features of population policy of India.

1. Voluntary approach
2. Reducing birth rate
3. Wide approach
4. Propaganda
5. Incentives

1. Voluntary approach

The population policy pursued by the government of India is maintaining its voluntary approach. The policy aims at achieving the control of population with the help of voluntary connection – oriented - operation of the people. The policy is trying to reduce the birth rate and also to educate people about the adoption of small family norms.

2. Reducing birth rate

The population policy of the country has been making its constant attack to reduce the birth rate of population. So as to reduce the natural growth rate of population in the face of continuous fall in its death rate. The various measures adopted for the purpose include popularizing sterilization, increasing use of different birth control devices, spreading literacy, spread of education among women, introducing poverty eradication programme, rising the minimum age of marriage.

3. Wide approach

The population policy of India has adopted a wide approach for adopting the methods of population control along with various family welfare programmes for the improvement of the health of the family members, mother's welfare, improvement of child health, nutrition programmes etc.

4. Propaganda

Family welfare planning in India has been adopting propaganda as one of the important steps to popularize the idea of family size limitation through adoption of birth control devices. The family welfare planning schemes has been advertised through the media like television, radio, newspapers, magazines, booklets etc.

5. Incentives

In order to popularize the birth control programme under family planning, the government is providing various incentives like cash assistance or cash reward for the people going for sterilization along with priority in government services.

National Population Policy, 2000.

The new national population policy was first formulated and announced in April 16, 1976 and the policy was later on modified in subsequent years.

The new national population policy, 2000 was announced by the NDA government in February 1, 2000, after 24 years of painstaking consideration. It has the long term objective of achieving stable population by 2045. The NDP lists to promotional and motivational measures for adopting of small family norms including awards for Panchayats and Zila Parishads.

Objectives

- Promote the small family norm to achieve replacement levels of total fertility rates.
- The national socio-demographic goals include addressing the needs for basic reproductive and child health services, making school education up to 14 years of age free and compulsory and bringing down dropout rate to below 20% at the primary and secondary levels, for both boys and girls.
- It aims at reducing infant mortality rate to below 30 per 1000 births, reducing maternal mortality rate to below 100 per 1,00,000 births, achieving universal immunization of children against all vaccines. Preventive diseases, encouraging late marriage for girls, not earlier than 18 and preferably after 20 years of age.
- The 12 strategic themes incorporated in the policy included empowering women for improved health and nutrition, meeting the needs for family welfare services and increased participation of men in Planned Parenthood.
- The new national policy , 2000 has set its immediate objective involve the Panchayat Raj by providing incentives like good sanitation, mobile phones to heath workers, opening of sub centers, ambulances for emergency care, encouraging self help groups to promote small family norms.

Population Policy During the Ninth Plan(1997- 2002):

The Government finally decided on 15th February 2000 to adopt the National Population Policy (2000) with a view to encourage two-child norm and aim at stabilizing the population by 2002.

The main features of the National Population Policy are as under:

1. Reduction of infant mortality rate below 30 per 1000 live births.
2. Reduction of maternal mortality rate to below 100 per 1,00,000 live births.
3. Universal immunization
4. To achieve 80 per cent deliveries in regular dispensaries, hospitals and medical institutions with trained staff.
5. Access to information, containing AIDS, pre-vention and control of communicable diseases.
6. Incentive to adopt two-child small family norm.
7. Raising the age of marriage girls not earlier than 18, and preferably raising it to 20 years or more.
8. Health insurance cover for those below the poverty line who undergo sterilization after having two children.

Population Projections (1991-2001):

Report of the Technical Group on Population Projections constituted by the National Commission on Population pertaining to period 1991 -2001.

The Report made the following assumptions:

Total fertility Rate decline observed during 1981-2000 will continue in the future years also.

Sex ration at birth of all the states are assumed to remain constant during future years.

The increase in life expectancy becomes slower as it reaches higher levels.

Inter-state net migration during 1991-2001 has been assumed to remain constant through the projection period for all states.

Urban-rural growth differentials for the period 1991-2001 has been assumed to be same in future as well upto 2026.

NATIOINAL INCOME

National Income Or Concept National Income.

By the term national income we mean aggregate money income of a country during a definite period, usually a year. Thus the national income is the measure of aggregate money value of all goods and services produced by the nation in any given time period, usually a year.

According to National Income Committee, A National Income estimate measures the volume of commodities and services turned out during a given period, counted without duplication '. Thus, a total of national income measures the flow of goods and services in an economy. National Income is a flow and not a stock.

Definition of National Income:

According to the National Income Committee (1951), "A national income estimate measures the volume of commodities and services turned out during a given period, counted without duplication".

VARIOUS CONCEPTS OF NATIONAL INCOME

1. Gross Domestic Product (GDP)

The GDP refers to the value of the goods and services produced with in the nation's geographical territory, irrespective of the ownership of the resources.

Gross Domestic Product is the money value of all final goods and resources produced by normal residents as well as non residents in the domestic territory of a country.

2.Net Domestic Product (NDP)

The total value of all final goods and services produced in an economy during a particular year minus depreciation allowances is called NDP.

NDP = GDP – depreciation or CCA

3. Gross national product (GNP)

The aggregate money value of all final goods and services produced by the nation during any given period usually a year is known as Gross National Product(GNP). Here the word final goods includes all finished goods used for final use.

Besides we must add with the gross domestic product(GDP), the amount of the same country i.e, income received from foreign investment and from other services rendered abroad (=X).

Again we must deduct from Gross domestic product(GDP), the amount of income generated by foreign nation within the country(-M).

Thus, **GNP = GDP +X –M**

4. Net National Product (NNP)

Net National Product is another important concept of national income. While producing the gross national product of a year, the capital stock of the country, i.e, machinery, equipment etc. is being used or consumed in the production process. Under such a situation, the capital goods of the country wear out or depreciate in its value due to its use or consumption in the entire production process.

Thus, **NNP = GNP – CCA or Depreciation**

5. National income at factor cost (NI)

The total income received by land, labour, capital and organization (factors of production) in one year is called the national income at factor cost. To obtain income at factor cost, subsidies should be added to and indirect taxes are to be subtracted from NNP.

NIfc = NNP - indirect taxes + subsidies.

6. Per-capita income

When the national income is divided by the total population of the country, it is known as per-capita income or average income per head. Therefore, the per capital income of India for the year 2004 can be estimated by;

PCI = NI of India in 2006 / Population of India.

7. Personal income

Personal income denotes the aggregate money payments received by the individuals or household in the county during one year.

PI = NI – undistributed corporate profits – social security contribution + Transfer payments.

8. Disposable income

Disposable income is the income left with the people to meet their personal expenditure after the payment of personal direct taxes. Entire amount of disposable Income is not spent on consumption. A portion of it is saved.

DI = PI – personal direct taxes.

Analyze the different methods for the Measurements or Estimation of National Income in India.

In India, the estimation of national income is being done by two methods, i.e., product method and income method.

1. Net product method
2. Net income method
3. Net expenditure method

1. Net Product Method

While estimating the Gross Domestic Product of the country, the contribution of GDP from various sectors like agriculture, livestock, fishery, forestry and logging, mining and quarrying is estimated with the adoption of product method. In this method, it is important to estimate the gross value of product, by-products and ancillary activities and steps are taken to deduct the value of inputs, raw materials and services from such gross value.

In respect of other sub-sectors like animal husbandry, fishery, forestry, mining and factory establishments, the gross value of their output is obtained by multiplying the estimated output with their market price. From such gross value of output, deductions are made for cost of materials used and depreciation charges so as to obtain net value added in each sector.

In respect of secondary activities, the computation of gross domestic product are done by the production approach only for the manufacturing industrial unit. In respect of constructions activity, the estimates of the value of A construction is made by the commodity flow approach and that of the B construction is made by the expenditure method.

2. Net Income Method

In India, the income from rest of sectors i.e., small enterprises, commerce, transport, communication, banking and insurance professions, liberal arts, domestic activities, house property, public authorities and the rest of the world is estimated by the income method. Here, the income approach is adopted to estimate the value added from these above said remaining sectors. Here, the process involves the measurement of aggregate factor incomes in the shape of compensation of employees (wages and salaries) and operative surpluses in the form of rent, interest, profits and dividends.

3. Net Expenditure Method

From the expenditure viewpoint, GNP is the sum total of expenditure incurred on goods and services during one year in a country. It includes the following items.

GNP according to expenditure method = Private Consumption Expenditure (C) + Gross Domestic Private Investment (I) + Net Foreign Investment (X- M) + Government Expenditure on goods and services (G) = C+I+(X-M)+G.

(a) Private consumption expenditure

It includes all types of expenditure on personal consumption by the individuals of a country. It comprises expenses on goods and services. All these are taken as final goods.

(b) Gross domestic private investment

Under this comes the expenditure incurred by private enterprise on new investment and on replacement of old capital.

(c) Net foreign investment

It means the difference between exports and imports or export surplus. The difference of value between exports (X) and imports (M) whether positive or negative is included in the GNP.

(d) Government expenditure

The expenditure incurred by the government on goods and services is a part of GNP. Central, state and local governments spend a lot on their employees, police and army.

As already pointed out above, GNP estimated by either the income or the expenditure method would work out to be the same, if all the items are correctly calculated.

<u>Limitations or Difficulties in the Estimation of National Income in India:</u>

The estimation of national income in India is facing number of limitations or practical difficulties. They are as follows.

1. Non-Monetized Sector

In the estimation of national income or output, only those goods and services which are exchanged against money are normally included. But in under developed countries like India, a huge portion of our total output is still either being consumed at home or being bartered away by the producers in exchange of other goods ands services leading to non-inclusion of huge non monetized output in the national income estimates of the country.

2. Non-Availability Of Information

The national income estimates in India is also facing another problem of non-availability of information about the income of small producers and household enterprises in India. Being illiterates the small producers have no idea of maintaining accounts and don't feel it necessary to maintain regular accounts as well. Under such a situation it is really a difficult task to collect data.

3. Lack of Reliable Data

The most important difficulty facing the national income estimation in India is the non-availability of reliable statistical information. In India national income data are collected by untrained and semiliterate persons like gram sevaks and thus the statistics are mostly unreliable. Although some statistical organisation like National Sample Survey (NSS) are organized by the government for this purpose but these are considered as inadequate. Thus, due to the dearth of reliable the adequate statistical data, national income estimate in India is still subjected to high degree of error.

4. Unreported Illegal Income

In India the parallel economy is fully operational as hidden or subterranean economy. Thus there is huge unreported illegal income earned by those people engaged into those parallel economy, which is not included in the national income estimation of our country. In 1983-84, the National Institute of Public Finance and policy made an estimate of black income which was to the extent of 18 – 21% of our national income. Obviously, non-inclusion of such a huge illegal income makes the national income estimate of the country as under-estimates.

5. Difficulty in the Classification of Working Population

The occupational distribution of the working population in India is not very clearly defined. This is particularly so because farmers in India in most of the cases prepare just one crop in the whole year, and in their free time have a tendency to accept alternative work in the unorganized sector. This phenomenon poses a real problem in determining the occupation of such people.

<u>Causes for Slow Growth of National Income in India:-</u>

The growth rate of national income in India remained all along poor particularly in the first half of our planning process. The following factors explain this clearly.

1. High Growth Rate of Population

Rate of growth of population being an important determinant of economic growth is also responsible for slow growth of national income in India. Whatever increase in national income has been taking place, all these are taken away by the growing population. Thus high rate of growth of population in India is retarding the growth process and is responsible for this slow growth of national income in India.

2. Excessive Dependence on Agriculture

Indian economy is characterized by too much dependence on agriculture and thus it is primary producing. The major share of national income that is usually coming from the agriculture which is contributing nearly 34% of the total national income and engaged about 66% of the total working population of the country. Excessive dependence on agriculture and low land –man ratio, Inferior soils, poor ration of capital equipment, problem of land holdings etc are responsible for slow growth of agricultural productivity which, in turn is also responsible for slow growth of national income.

3. Occupational Structure

The peculiar occupational structure is also responsible for slow growth of national income in the country. At present about 66% of the working force are engaged in agriculture and allied activities, 3% in industry and mining and the remaining 31% in the tertiary sector. Moreover, prevalence of high degree of under employment among the agricultural labourers and also among the work force engaged in other sectors is also responsible for this slow growth of national income.

4. Low Level of Technology

In India low level of technology is also responsible for its slow growth of national income. Moreover, whatever technology that has been developed in the country, is not properly utilized in its production process leading to slow growth of national income in the country.

5. Poor Industrial Development

The industrial sector in India has failed to maintain a constant and sustainable growth rate during the planned development period and more particularly in recent years. Moreover, the development of basic industry is also lacking in the country. All these have resulted a poor growth in the national income of the country.

CONTRIBUTION OF DIFFERENT SECTORS OF THE ECONOMY TOWARDS NATIONAL INCOME OF INDIA.

1. Primary Sector

During the post independence period, the share of the primary sector in the NDP has varied from the maximum of 56.6 percent in 1960-61 to the minimum of 21.6 per cent in 2004-05. In 1970-71, the primary sector had accounted for 47.4 per cent of the NDP as against 41.1 per cent in 1981-82.

2. Secondary Sector

The secondary sector comprises manufacturing, construction and electricity, gas and water supply.

(i) Manufacturing is the predominant activity in the secondary sector. The net output was 8.3 per cent in 1970-71 and 9.3 per cent in 1981-82 and 12.0 per cent in 1991-92. In 2004-05, this sector accounted for merely 4.4 per cent of the NDP of the country.

3. Tertiary Sector (Service)

(i) Trade, Transport and Communications – since 1960-61, for two decades the share of transport, communication, trade and hotels in the NDP had fluctuated between 13.4 per cent and 16.5 per cent. However, during the last two decades the share of this sector in the NDP has increased steadily from 16.5 per cent in 1981-82 to 26.3 per cent in 2004-05.

(ii) Trade, Hotel and Restaurant Sector has progressively increased its share in NDP stood at 16.8 per cent in 2004-05 as against 9.7 per cent in 1960-61 and 13.0 per cent in 1981-82.

(iv) Real Estate and Dwelling- the share of real estate, ownership of dwellings, and business services increased during the last three decades from 3.0 percent in 1970-71 to 7.3 per cent in 2004-05.

Trends in National Income:

In order to ascertain the growth of the economy, figures of national income and per capita income are collected at current prices.

For the increase in national income at current prices reflects the combined influence of two factors viz., the increase in the production of real goods and services; and

the rise in prices. If the increase in national income is due to the first factor, it goods are available to the people.

The following data relating to national income and per capita income of India from 1950-51 onwards for some selected years.

Net National product at factor cost and per capita NNP

Year	National Income (Rupees in Crores)		Per capita Income (in Rpuees)	
	At Current	At 1993-94	At Current	At 1993-94
1950-51	9144	132379	255	3687
1960-61	15206	192253	350	4430
2000-01	1702454	1050177	16707	10306
2002-03	1986207	1161580	18825	11010

Source: Central Statistical Organisation

Reference:

1.Indian Economy – P.K.Dhar.

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UNIT – II COMPLETED

UNIT-III

AGRICULTURAL DEVELOPMENT

In India, the major chunk of total population is still living in rural area. Agriculture is considered as the only source of primary occupation as a huge size of rural population of the country is solely depending on agriculture. Therefore, the development of rural areas should receive top priority in our developmental programmes. Accordingly, it requires development of agriculture, implementation of land reform measures and development of co-operative.

Agriculture forms the backbone of the Indian economy and despite concerted industrialization in the last five decades, agriculture occupies a place of pride. Being a largest industry in the country, agriculture provided employment to around 58% of the total work force in the country. The significance of agriculture in the national economy can be best explained by considering the role of agriculture under different heads.

ROLES (SIGNIFICANCES, IMPORTANCE) OF AGRICULTURE IN THE INDIAN ECONOMY:

The following are some of the important points which explain the role of agriculture in the economy of our country.

1. Contribution to national income

From the very beginning, agriculture is contributing a major portion to our national income. In 1950 –51, agriculture and allied activities contributed about 59% of the total national income. Although the share of agriculture has been declining gradually with the growth of other sectors but the share still remained very high as compared to that of the developed countries of the world. For e.g. the share of agriculture has declined to 54% in 1960-61, 48% in 1979-71, 40% in 1980 –81 and then to 24% in 2003-04 where as in U.K. and U.S.A. agriculture contributes only 3% to the national income of these countries.

2. Source of livelihood

Agriculture dominates the economy to such an extent that a very high proportion about (2/3) of our working population is engaged directly on agriculture and also similarly depend for their livelihood.

According to an estimate, about 66% of our working population is engaged in agriculture at present in comparison to that of 2% to 3% in U.K. and U.S.A., 6% in France and 7% in Australia. It is only in backward and less developed countries that the working population engaged in agriculture is quite high. For e.g., it is 35% in Egypt, 59% in Bangladesh, 50% in Indonesia and 68% in China in 1997.

3. Source of food supply

Agriculture is the only major source of food supply as it is providing regular supply of food to such a huge size of population of our country. It has been estimated that about 60% of household consumption is met by agricultural products. In recent years, India become more or less self sufficient in respect of food supply although India had to face a serious shortfall in food production during the last three decades leading to import of food grains from foreign countries to the extent of 5% of rural requirements.

4. Industrial development

Agriculture in India has been the major source of supply of raw materials to various industries of our country. Cotton and jute textile, sugar, vanaspati, edible oil plantation industries (viz. tea, rubber and agro based cottage industries are also regularly collecting their raw materials directly from agriculture. About 50% of income generated in the manufacturing sector comes from all these agro-based industries in India. Moreover, agriculture can provide a market for industrial products as increase in the level of agricultural income may lead to expansion of market for industrial products.

5. Commercial importance

Indian agriculture is playing a very important role both in the internal and external trade of the country. Agricultural products like tea, coffee, sugar, tobacco, spices, cashew nuts etc., are the main items of our exports and constitute about 50% of our total exports. Besides manufactured jute, cotton textile and sugar also contribute another 20% of the total exports of our country. Thus, nearly 70% of India’s exports are organised from agricultural sector. Further, agriculture is helping the country in earning precious foreign exchange to meet the required import bill of the country.

6. Source of government revenue

Agriculture is one of the major sources of revenue to both the central and state governments of the country. The government is getting a substantial income from raising land revenue. Some other sectors like railway, roadways are also deriving a good part of their income from the movement of agricultural goods.

7. Economic planning

The prospect of planning in India also depends much on agricultural sector. A good crop always provides imputes towards a planned economic development of the country by creating a better business climate for the transport system, manufacturing industries, internal trade etc. A good crop also brings a good amount of finance to the government for meeting its planned expenditure. Similarly, a bad crop leads to a total depression in business of the country, which, ultimately lead to a failure of economic planning.

8. Source of Raw Materials

Most of the Indian industries are agro-industries depending on agriculture for the supply of raw materials. Important industries of India are cotton textile, jute, sugar, plantations, vanaspathi and paper. All these depend on agriculture either directly or indirectly. Besides, handloom weaving, rice milling, oil crushing, jaggary making, beedi manufacture, coir making, sericulture and other host of small and cottage industries depend on agriculture.

<u>FEATURES OF INDIAN AGRICULTURE:</u>

1. Feudal Character of Production

The character of agricultural production in India was totally feudal at the time of independence. During those days, the land tenure systems were mostly of Zamindary, Mahalwary and Ryotwaris type. The major portion i.e., about 57% of the total area was under Zamindary system which paved the way for exploitation of peasants by the Zamindars. Even in the Ryotwary system, this sort of exploitation was also prevalent.

After the introduction of land reform measures by the state government for abolishing intermediaries since independence, the character of that feudal system did not change much. The abolition of zamindari system paved the way for the creation of absentee landlords. Like the zamindars, these absentee landlords become the ruling class in India. These landlords are still exploiting the tenants and agricultural workers.

2. Dualism in Labour Market

Dualism in the labour market become prevalent in India as due to excessive pressure of population on land, the level of wages in the agriculture sector become considerably lower in comparison to that of industrial sector. This dualism started to exist in Indian labour market due to worker's ignorance of better opportunities outside agriculture and also due to their inability to work in a modern industrial system. This low level of wages is responsible for low per capital income, which in turn reduces the labour productivity to low ebb. Moreover, cheap agricultural labour paves the way for the adoption of labour - intensive cultivation and discourages mechanization of agriculture.

3. Growing Indebtedness

In Indian agriculture, the use of usurious capital is quite huge in volume and this leads to growing indebtedness among the poor farmers. After independence, although the government introduced various steps such as development of co-operative credit societies, participation of banks in raising rural credit etc., but all these could not benefit the small and marginal farmers and thus they continue to depend on village moneylenders to fulfill their credit requirements. These moneylenders are still charging exorbitant rates of interest manipulate their accounts and ultimately seize the land of these small and marginal farmers illegally. Thus, this flow of usurious capital in agriculture credit is responsible for rural indebtedness in the country.

4. Orthodox Farming Techniques

Indian agriculture is still characterized by the use of orthodox farming techniques. Major portion of the agricultural operation are still depending on biological sources of energy, i.e., human and animal labour, rainwater and organic manure (dung). After the adoption of new agricultural strategy in 1966, modern techniques of production along with new HYV seeds were introduced in some states like Punjab, Haryana and Western Utter Pradesh. This resulted a significant increase in agricultural productivity in those states. This has also resulted an inter regional technological dualism as major portion of eth agricultural land continues to follow orthodox methods while only certain regions started to follow modern techniques.

5. Fluctuation in Agricultural Output

Another notable feature of Indian agriculture is that total agricultural output of the country is subjected to too many fluctuations. Dependence of Indian agriculture on monsoons is the most important factor responsible for this large –scale fluctuations in agricultural output. The proportion of area irrigated to the total net worn area has increased from 17.5% to 61% only. The remaining 39% of the net worn area still continues to depend on rainfall. Thus, Indian agricultural operations can still be considered as the 'gamble of monsoon' as nature is still playing a dominant role in determining the volume of agricultural production of the country.

AGRICULTURAL PRODUCTIVITY

What do you mean by Agricultural Productivity? What are the Causes of Low Agricultural Productivity?

By the term agricultural productivity we mean the varying relationship between the agricultural output and the major inputs such as land. The most commonly used term for representing agricultural productivity is the average yield per hectare of land. After the introduction of modern agricultural techniques along with the adoption of hybrid seeds, extension of irrigation facilities and application of intensive method of cultivation in India, yield per hectare of all crops has recorded a steep rising trend.

Causes of Low Agricultural Productivity

The agricultural productivity n India is still low when compared with other countries. The causes of low productivity can be divided into the followed three categories.

I. General Factors

II. Institutional Factors

III. Technological Factors.

I. General factors

1. Overcrowding in Agriculture
2. Socio-economic factors
3. Natural factors

4. Lack of adequate finance
5. Lack of productive investment and
6. Inadequate marketing system

1. Overcrowding in Agriculture

In India agricultural sector is very much overcrowded. Too many people of India depend on agriculture. Since 1901, about 70% of Indian population has been depending on agriculture. But to this unrelenting pressure of population and lack of alternative employment opportunities outside agriculture, the size of holding has become smaller and small with the gradual sub-division and fragmentation of land. This has resulted in the fall in per capital land area and the marginal productivity of labour. Due to this over crowd ness the area of cultivated land per cultivator has declined substantially from .43 hectares in 1901 to .20 hectare in 1991.

2. Socio-Economic Factors

Various social-economic factors like farmer's conservative outlook, ignorance, illiteracy, superstitions etc. and in way of adoption of modern technology in Indian agriculture. Unless this discouraging rural atmosphere is changed, it is not at all possible to modernize and improve the condition of agriculture in this country.

3. Natural Factors

Nature still dominates agriculture in this country. It is said to be a gamble of monsoons. The rains are totally uncertain in India. Sometimes rains are insufficient or sometimes too much of rain resulting in floods both of which cause widespread damage and destruction. Other natural calamities such as hailstorm, frost or attack by pest and insects area also of common occurrence in India. All these natural factors always go against the Indian farmers in steeping up their agricultural productivity.

4. Lack of Adequate Finance

Indian agriculture still remains backward due to its inadequate financial provision. Until recently, farmers have to depend much on the village money lenders, who charges exorbitant rate of interest and resort to unfair practice like manipulation of accounts etc. for which the cultivator had to lose his land and become a landless agricultural labourer. Other sources of finance viz., co-operative banks, financial institutions and government although exist but their contribution is almost insignificant in quantity.

5. Lack of Productive Investment

There is near absence of productive investment in Indian agriculture as the investment in land is found less attractive than the alternative investment in jewelry, trade and money lending.

6. Inadequate Marketing System

The marketing system of agricultural products in India is totally defective and inadequate. In the absence of proper marketing and storage facilities, farmers are deprived of due prices of their agricultural products and have to go for even distress sell after harvests at a very low price. Thus, the middlemen take away a major chunk of the profit, as the farmers are not even guaranteed fair and remunerative prices for their products.

<u>II. Institutional factors</u>

1. Small size of holdings
2. Defective pattern of land tenure

1. Small Size of Holdings

The average size of agricultural holds in India is very small and uneconomic. According to the National Sample Survey, 52% holdings in 1961-62 had a size of less than 2 hectare. In 1990-91, 78% of total holding fell under this category. Besides, the agricultural holds in India are fragmented too with such uneconomic and fragmented hold, no scientific cultivation with improved implements, seed etc is even possible. All these have resulted low yield in Indian agriculture.

2. Defective Pattern of Land Tenure

Land tenure system in India is totally defective. Even after the abolition of Zamindari system and enactment of tenancy legislations, the position of tenants is still far from satisfactory. The cultivator has to pay high rent to the landlords and is subject to frequent ejectment by the landlord. All these have led to lack of incentive and confidence on the part of cultivators to make provisions for any permanent development on their land.

<u>III. Technological factors</u>

1. Traditional method of cultivation
2. Lack of high yielding seeds
3. Scanty use of fertilizers
4. Inadequate irrigation facilities
5. Lack of agricultural research

1. Traditional Method of Cultivation

The farmers in India have been adopting orthodox and inefficient method and techniques of cultivation. These farmers were relying on centuries old wooden plough and other implements. Thus, the adoption of traditional methods is responsible for low agricultural productivity in India.

2. Lack of High Yielding Seeds

Indian farmers are still applying seeds of indifferent quality. They have no sufficient financial ability to purchase good quality high yielding seeds. The supply of HYS is also minimum in the country. Thus the farmers are mostly applying traditional variety of seeds whose average yield is just half of the yield of improved HYVs.

3. Scanty Use of Fertilizers

Indian farmers are not applying sufficient quantity of fertilizers on their lands. Constant cultivation of land causes deterioration of the fertility of the soil. For the revitalization of soil fertility and to use fallow land for cultivation, application of various types of fertilizer is urgently required. But the poor cultivators cannot afford to purchase costly chemical fertilizers. The inadequate application of chemical fertilizers as well as dung manure affects agricultural productivity.

4. Inadequate Irrigation Facilities

Indian agriculture is still suffering from lack of assured and controlled water supply through artificial irrigation facilities. Gross cropped area in India in 1993-94 was 186.4 million hectare of which 68.4 million hectare had irrigation facilities. Thus, 36.7% of gross cropped area had irrigation facilities in 1993-94. This shows that even now about 63% of the gross cropped area continue to depend on rains, which is neither regular nor even. Thus, in the absence of assured and controlled water supply, the agricultural productivity in India is bound to be low.

5. Lack of Agricultural Research

Agricultural research in India is still very poor in comparison to its requirements. Whatever research is being conducted, its result is not even made available to the farmers fully for tits application. Thus many chronic problems of agricultural operation faced by the farmer still remain largely unattended.

AGRICULTURAL REFORMS IN INDIAN ECONOMY:

There is an urgent need to modernize agriculture and improve productivity:

1. Farmers have to be empowered with education, on-farm training and guidance to employ modern cultivation practices.
2. The agricultural Universities, research stations, the scientific community and the self help groups (SHGs) have a larger role to play in helping farmers with an innovative approach.
3. Farmers have to be provided with quality seeds and innovative package of cultivation practices.
4. Trial farming has to be conducted in farmers' fields to enable them to see for themselves, the benefits of appropriate technologies.
5. Sugar industry in India is adopting to some extent this type of trial and demonstration plots to educate the farmers in increasing the productivity of sugarcane. This type of help to farmers should be adopted for other crops as well, with adequate administrative and marketing support.

FOOD CRISIS AND FOOD PROBLEM

One of the chronic problems of India since independence, baffling the government and the economists, is the food problem. With more than 50 years of planning, and persistent agricultural development with the new strategy named 'Green revolution" the production of food grains has no doubt reached and exceeded 190 million tones.

The food problem in India is not merely a quantitative problem i.e., a problem of physical shortages of supply over ever increasing demand for food. It has many aspects, viz., qualitative, administrative and economic. Food supply in India consists mostly of cereals and is largely deficient in nutritional value, which can be had in eggs, meat, fish and fruits.

The following table depicts the relative production of rice and wheat in various years

YEAR	RICE	WHEAT	TOTAL FOOD GRAINS (in MT)
1950-51	20.6	6.5	50.8
1960-61	34.6	13.0	22.0
1970-71	42.2	23.8	108.4
1980-81	53.6	36.3	129.6
1990-91	74.3	55.1	176.4
1998-99	86.0	70.8	203.0

The following table reveals the changes in the proportion of area under cultivation between food crops and non-food crops since 1950 -51.

Crops	*1950-51*	*1980-81*	*1990-91*	*2004-05*
All crops	100	100	100	100
Food crops	74	80	77	68.8
Non-food crops	26	20	23	31.2

What are the causes of Food Problem?

Following are the causes of food problem in the country.

1. **Pressure of Population**

The population has been rising at a rapid rate. In 1901, the population of the country was 238 million. Between 1901-20, the growth rate of population was 5.4% while in 1921-40 it was recorded to be 25.23%. During 1951-61, we added 80 million more people and 108 million during 1961-71. It means population increased by 24% during the decade of 1961-71. moreover, the population of the country in 1991 was 846.3 million which in March 1995 increased to 916.72 million.

2. **Low Productivity of Land**

The fertility of land in the country has been declining. The decline has been fast during the last 30 years and has taken place because of coincidence of several factors as substitution of high yielding crops, inadequate drainage facilities, extension of agriculture on marginal and sub-marginal lands, increasing deficiency of soil etc., soil erosion and increasing salinity, acidity and semi desert conditions has further declined productivity.

3. **Partition of the Country**

Partition of the country further worsened the food situation in the country as the food surplus areas of West Punjab, Sindh, and East Bengal went over to the share of Pakistan. This reduced the agricultural production and created difficulties both for food grains and commercial crops. Moreover, India had obtained 82% of the total population of undivided India but her area in total area was 77%.

4. **Poverty and Unemployment**

The food problem is severe to those who are poor with less purchasing power. Because of the low pace of development in the last few years, the volume of job creation did not increase in the same proportion as the rise in work force. Therefore, there was an increase in the volume of poverty.

5. **Uncertainty in Production**

As Indian agriculture is a gamble of monsoon, therefore, the production of food grains is uncertain. As a result, there exist fluctuations in the volume of production year after year. For e.g., the production of food grains was 87.8 million in 1969, it was 150.7 million tones in 1985-86 and 182.1 million tones in 1994-95 and again 185.1 million tones in 1995-96. Thus the seriousness of food problem depends on the performance of nature.

6. **Wastages of Food Grains**

Ravages of pests in the field cause a loss in the yield of crops. In this regard, a survey conducted by NCAER, it pointed out that the loss due to pests was 40.3% on cotton, other crops like paddy, Jowar, sugarcane, recorded losses ranging from 8.8% to 12.1% the lowest being 2.8% in wheat.

7. **Urbanization**

The urban population in India has been increasing at a rate never witnessed before. The size of urban population in 1990 is more than double than that in 1961. The implications of this large increase in urban population are clear enough. To maintain stability of food prices in urban areas, supplies will have to keep pace with the increase in urban population.

8. **Inadequate Marketable Surplus**

The marketable surplus of food grains is the complex of factors like production and self consumption. It is a known fact that some of the farmers have greater holding capacity and they stock their output with a view to seek at higher prices, which in turn badly affect the availability of food grains and their prices in the market.

<u>What are the measures to solve the Food Problem?</u>

The food problem in India is not a simple one capable of any simple solution. It has to be attacked on all fronts and the measures taken should be both short term as well as long term.

<u>Short-Term Measures</u>

Licensing of food grains merchants and strict supervision of their trading.

Control and statutory rationing of food in all towns with a population of 25,000 or more as recommended by the Famine Enquiry Commission, 1944.

Establishment of fair price shops.

Building up of a ‘buffer stock’ of food grains in the form of a food bank.

Import of food grains to meet famine conditions and to replenish buffer stocks.

<u>Long-Term Measures</u>

The approach, adopted for increasing production of food grains are explained below.

1. **Technological Change**

Technological measures is the least controversial as it is obvious that if agricultural production is to be increased, it would be necessary to provide improved seeds, more fertilizers, better irrigational facilities, modern tools and implements, as well as advanced techniques of cultivation.

2. **Institutional Changes**

The second method is through institutional changes. Certain land reform are imperative and although the government is laying much emphasis on consolidation of holdings, ceiling on land holdings, regulation of tenure etc., in increasing agricultural productivity.

3. **Organizational Changes**

The third approach is organizational in which it is pointed out that one efforts to increase agricultural output have not succeeded due to defective organizational like co-operative societies, panchayat, community development as well as the governmental administrative system.

4. **Change in Distribution**

The government has entered the field of distribution of food grains. The Food Corporation of India, set up in 1965, has taken up state trading in foodstuffs on a massive scale. This agency builds up buffer stock, and engages in purchase, storage, movement, distribution and sale of food grains.

5. **Stabilization of Agricultural Prices**

The primary object of food policy is to hold the prices of food grains and put them under proper check. The government has been adopting many short-term measures stepping up procurement of food grains, release through fair price shops, controlling prices and also curbing profiteering and hoarding. The government appointed the Agricultural Price Commission in 1965 now called CAPC to advise the government on procurement and price policies in order to achieve stabilization of agricultural prices.

6. **Population Control**

In order to maintain balance between population and food supply and provide the people with an adequate and balanced diet, the government has taken up population control measures on a massive scale. The per-capita availability of food declined form 15 tons in 1961 to 12 tons in 1970 in spite of increase in food production from 82 million tons to 96 million tones. The growth of population has gone up so recklessly that it has out placed all efforts at increasing food production.

7. **Changing Food Habits of The People**

Food supply in India is not only inadequate but also very poor in quality resulting in widespread Malnutrition. Various authorities have confirmed the inadequate of the Indian diet. India suffers from protein deficiency. According to the 'Diet Atlas of India' rural people spent large proportion of their income for food grains as compared with urban people on an average, a villager has 41% of his expenditure on food grains whereas the city dweller has 25% of his expenditure on food grains. More than half the population of the country is non-vegetarians. If the people change their food habits and consumption pattern of food, the mal nutrition and inadequacy of supply can be mitigated to a certain extent.

8. **Crop Insurance**

Another suggestion to solve the problem of food, crop insurance must be introduced. It will help to compensate the economic losses of the small farmers. This in turn helps to attach the farmers to agricultural sector.

Write a note on Food Policy in India.

With rising trend of population and instability in agricultural production and prices, the problem of managing food economy of the country has become formidable task of the government. The primary function of the government in this respect is to ensure that food grains, at least the minimum amount, is made available to all section of the society at prices within their reach so, the food policy forms an integral part of the overall policy, the agricultural policy and the nutritional policy of the government.

Objectives of Food Policy:

- To avoid localized and widespread famine and open under- nutrition.
- To maintain remunerative prices to farmers and to enthuse them to use modern inputs and technology.
- To stabilize prices of food grains arising out of market decision through; Price support policy when there is a rapid fall in prices and To attempt through administrative means to keep prices low when there is a strong upward pressure on prices.
- To supply food grains to weaker sections of the society at prices below market prices.
- To procure food grains for public distribution at below market prices.
- To build and maintain a buffer stock of food grains to facilitate government operation and
- To use the agricultural price policy to resist general inflationary forces in the economy.
- To produce stable and adequate production of cereals, pulses, vegetables oils, sugar, fruits, vegetables, milk etc.

Write a note on Food Corporation of India.

The food corporation of India was set up on January1, 1965 through an Act of parliament. This was set up on the basis of the recommendation of Food grains Policy Committee of

1943, during the Second World War period. This committee recommended the setting up of independent trading corporations to supply and distribute food in the country.

Objectives

- Undertake purchase, storage, transport, distribution and sale of food grains and other foodstuffs.
- To promote the production of food grains and other foodstuffs.
- To set up or assist in the setting up of rice mills, flour mills and other such undertakings for processing of food grains and other foodstuffs.

To act as support price organization to ensure a minimum price to the producers.

GREEN REVOLUTION (NEW AGRICULTURAL STRATEGY)

Write a note on New Agricultural Strategy.

The new agricultural strategy in India was adopted during the third plan i.e., during sixties. Here, the traditional agricultural practices followed in India are gradually being replaced by modern technology and agricultural practices. This new strategy is also popularly known as modern agricultural strategy or green revolution.

The new agricultural strategy consists of application of chemical fertilizers, pesticides, improved variety of seeds including hybrid seeds (HYVS), agricultural machinery and irrigation etc.

It is based on the 'application of science and technology for increasing yield per hectare'.

What are the components of Green Revolution?

The various components of green revolution consist of the following.

1. **Package of Inputs**

The main thrust of the green revolution is the application of the package of improved practices. The main constituents of the package practices are improved seeds, fertilizers, plant protection measures and water use etc.

2. **Guaranteed Minimum Prices**

The guaranteed minimum price has been given due recognition as an incentive to agricultural production. Support price policy for food grains was adopted in 1964 through out the country. In order to advice the government for suitable price policies for agriculture Agricultural Price Commission (presently known as Agricultural Price and Cost Commission) was set up.

3. **Crop Rotation**

The new agricultural strategy is not only concerned with higher yield but also with greater intensity of cropping. Therefore, new crop rotation has been made possible by developing short duration varieties of paddy, jowar, bajra and maize which are suited to different agro- climate condition. In the same way, other crops like barley, oilseed, potato and vegetables have also been considered for rotation.

4. **Agricultural Machinery and Improved Implements**

Another stress has been given to the role of agricultural machinery and improved implements. Agro Industries Corporation in different states has been set up to motivate the cultivators for the application of improved inputs and infrastructures.

5. **Multiple Cropping**

Multiple cropping aims at maximizing production per unit of land and per unit of time by taking three or four crops in a year. By adopting multiple cropping programmes, there are two advantages as of getting increased returns and economizing the farm resources.

6. **Plant Protection Measures**

As pests and diseases have been causing severe damages to crops, plant protection has been considered another major component of new agricultural strategy. This programme includes seeds treatment, intensive aerial ground spraying, weed control and rodent control.

Special Features of Green Revulsion:

1. To make available the required types and quantities of inputs, particularly fertilizers and to allocate foreign exchange for this purpose.
2. To encourage investment in fertilizer factories and the manufactures of other inputs in India

3. T recognize and co-ordinate agricultural research at all India level in order to raise agricultural productivity.
4. To intensify agricultural extension services and activities in selected programme areas.
5. To provide adequate credit to farmers willing to grow the new varieties and adopt the appropriate farm practices.

<u>What are the Advantages/ Benefits/ Achievements/ Impacts of New Agricultural Strategy / Green Revolution/ Result of Green Revolution in India:</u>

The following table reveals the success of green revolution.

(in million tones)

Items	1960-61	1980-81	2003-04
Rice	**35**	**54**	**87**
Wheat	**11**	**36**	**72**
Total cereals	**69**	**119**	**196.8**
Total pulses	**13**	**11**	**15.2**
Total food grains	**82**	**130**	**212**
Sugarcane	**110**	**134**	**236.2**
Cotton (Million Bales)	**6**	**7**	**13.8**
Jute and mesta (MB)	**4**	**8**	**11.2**
Oilseeds	**7**	**9**	**25.1**

1. Increase in agricultural production
2. Increasing employment opportunities
3. Increase in per hectare yield
4. Strengthening the forward and backward linkages
5. Change in attitude

1. Increase in Agricultural Production

Due to the adoption of new agricultural strategy the volume of agricultural production and productivity has recorded manifold increase. The production of wheat, rice, maize and potato's has increased substantially. Total production of food grains in India has increased from 81.0 m. tonnes during the third plan to 212.0 million tones in 2003-04. This has become possible due to the introduction of Special Food grains Production Programme (SFPP).

2. Increasing Employment Opportunities

The introduction of new agricultural strategy has led to considerable expansion of agricultural employment. Due to the introduction of multiple cropping, transportation, marketing and food processing etc., job opportunities in the rural areas have also expanded as the demand for hired workers required for farm activities increased simultaneously.

3. Increase in Per Hectare Yield

With the adoption of modern technology, the yield per hectare has also shown considerable improvement. In case of wheat, the yield per hectare rose from 850 Kg in 1960-61 to 2583 Kg per hectare in 1998-99. Regarding rice, its yield per hectare has been recorded as 1928 Kg per hectare in 1998-99 against 1013 Kg per hectare in 1960-61.

4. Strengthening the Forward and Backward Linkages

Strong forward linkage of agriculture with industry was noticed even in the traditional agriculture as agriculture supplied various inputs to industries.

But, the backward linkage of agriculture to industry i.e., in the form of agriculture using finished products of industry. Thus, modernization of agriculture and development of agro-based industries have strengthened both the forward and backward linkage between agriculture and industry.

5. Change in Attitude

Green revolution has contributed favourably to change the attitudes of farmers in India. Agricultural operation has enhanced its status from subsistence activity to commercial farming due to the adoption of strategy. The evidence of qualitative change in attitudes can be observed from the short and long run investment decision of the farmer i.e., increasing application of current inputs like HYVS, fertilizers, pesticides etc., and their investment in tube-wells, pump sets for irrigation.

What are the Limitations/ Drawbacks/ Weaknesses of Green Revolution?

The following are the important demerits of green revolution.

1. **Inter Personal Inequalities**

Green revolution has created some impact on interpersonal inequalities. The studies conducted by Francis G.R. Saini and Pranab Bardhan revealed that the large farmers are benefited most from the green revolution. C. H. Hanumantha Rao, who remarked that," the principle beneficiaries of the green revolution have been the big farmers who are able to grab the superior quality inputs and credit facilities to their own advantages".

2. **Limited Coverage**

The spread of green revolution was restricted to few crops like paddy, wheat. HYVS was initiated on a small area of 1.98 million hectare in 1966-67 which covers only 30% of the total gross cropped area so far. Naturally, its benefits have limited coverage. Moreover, the share of three Northern Stages comprising of Punjab, Haryana and Utter Pradesh while the states of Eastern Region (West Bengal, Orissa and Bihar) simply fell down from its benefits.

3. **Increase in Regional Disparities**

Introduction of new strategy in agriculture has widened the regional disparities as only some regions will endow with resources and irrigation potential have been benefited most from the introduction of modern technology. Thus, accordingly the regional of Punjab, Haryana and Western Utter Pradesh derived the benefit of new agricultural strategy. But the agriculture of the remaining more than 80% of the cropped area of the country is still depending on vagaries of the monsoons in the absence of irrigation facilities.

4. **Costly Affairs**

The adoption of new technology is a costly affair than the traditional method of cultivation. In the traditional agriculture except land and bullock power other inputs are least expensive. But, inputs in case of modern technology are very costly and available outside the farm. Indian farmers being poor are not in a position to buy these expensive inputs like pumping sets, manure and tractors etc.

5. **Risky Affairs**

The new technology is more risky than the traditional cropping pattern. The risk arises from several sides. For e.g., if there is excess supply of water or deficiency, result scanty development of crops. Moreover, these seeds are more prone to pests and carelessness may even destroy the production potentialities. Thus, it involves risk unnecessarily.

6. **Displacement of Labour**

It is felt that new agricultural strategy / green revolution had led to displacement of labour. Such study has been made by Umak Srinivastava, Robert W. Crown and E. O. Heady.

7. **Unwanted Social Consequences**

Green revolution has also raised certain unwanted social consequences. Various social-economic studies have confirmed these consequences. Increased mechanization of farm has resulted huge number of accidents which maimed more then 10,000 farm labourers in India till1985. Again the increasing application of poisonous pesticides, without realising the health hazards had added a serious health problem.

CROPPING PATTERN

What do you mean by Cropping Pattern? Or Explain the concept Cropping Pattern.

Crop pattern means the proportion of area under different crops at a particular point of time. A change in the cropping pattern means a change in the proportion of the area under different crops. Cropping pattern in any region is the outcome of trails and adjustments, depending on physical, sociological and economic factors. Physical factors such as soil, climate, irrigation, drainage etc., determine the type of crops to be grown. Economic factors such as allocation of scare land resources, condition of production including the tenurial system, development of markets, demand and supply situation etc., determine the crops to be produced. In short, the cropping pattern of any region is an outcome of the long process in historical evolution.

Cropping Pattern in India

To study the cropping pattern, we have to study the area and production of different crops grown over a fairly long period of time and ascertain how the proportion has changed and the reasons for the change of pattern.

Area under principal food crops (area in million hectares)

CROP	1950-51	1974-75	1979-80	1989-90	1994-95
Rice	30.8	37.9	39.0	42.2	42.2
Wheat	9.7	18.0	22.0	23.5	25.0
Jowar	15.6	16.2	16.5	15.0	14.6
Bajra	9.0	11.3	10.6	10.9	10.2
Maize	3.2	5.9	5.8	5.9	5.7
Pulses	19.1	22	21.8	23.2	21.1
Other cereals	10.8	9.8	8.4	5.8	4.7
Total food grains	98.2	121.1	124.1	126.5	123.5

According to available statistics, total food grains sown in 1994-95 were 123.5 million hectares. Total area under non –food grains had increased from 19.56 million hectares in 1950-51 to 51.5 million hectares in 1994-95.

A thorough study of area under different crops and production since 1950-51 reveals the following features.

- The total cropped area in the country increased from 117.56 million hectares in 1950-51 to 175.0 million hectares in 1994-95 showing an increase of 50 percent over 45 years of planning and development.
- In 1950-51, food grains occupied 83 percent of total cropped area and non food grains accounted just 17 percent. In 1994-95 food grains occupied 75 percent.
- A large proportion of the area under the food grains is occupied by cereals. Out of the total area under food grains, nearly 81 percent is devoted to cereals. Pulses are given only 19 per cent of area.

Explain the Factors Influencing Cropping Pattern.

Crop pattern in any country is not an accident, not a change in crop pattern will come about of its own accord. It is the result of many sequences and consequences. Some important factors influencing crop pattern are as follows.

1. **Natural Conditions**

Natural factors like the climate of the country, type of the soil, rainfall and temperature determine the type of crops to be grown. For e.g., wet crops like paddy, sugarcane and banana can be grown in regions where there is abundant rainfall and high temperature. Regions with low rainfall and poor soil are suitable for dry crops like jowar, bajra and ragi, as well as millets.

2. **Irrigation Facilities**

Irrigation facilities play a dominant role in determining the crop of a region. It can change the pattern of crops. Assured water supply will enable the farmers to have two or three crops in a year. Many barren tracts of land in our country have been changed into paddy growing regions due to extension of irrigation facilities. Mere presence of reservoir or canals will not influence the cropping pattern. The irrigation system requires better management practices in terms of operation and maintenance.

3. **Prices of Crops**

Prices of different agricultural crops influence the cropping pattern. Changes in the market prices of competing crops will influence the farmer to have that crop in which the income will be the maximum per acre. Continuous fall in price of one crop will make the farmers shift to the other crop. If the price of one crop fluctuates very widely, the farmer will avoid growing the crop.

4. **Size of Farmer and Income of the Farmer**

A subsistence farmer with his small patch of land will grow only food crops for his family. The size of the farm thereby determines the type of crop. Generally, farmers will grow food crops in sufficient quantities and then only they can think of commercial crops. Big farmers can devote attention in the production of commercial crops.

5. **Availability of Inputs**

Availability of inputs like seeds, fertilizers and pesticides in adequate quantities at a reasonable price will influence the type of crop grown by the farmer. Exotic varieties of seeds, fertilizers required in adequate doses have to be supplied by the government in order to induce the farmer to shift to the type of crop indicated by the agricultural department.

6. **Government Policy**

The policy of the government may change the crop pattern. This can be done by supplying the seeds and other inputs at a concessional price to the farmers so as to induce them to grow a particular crop. The government may also offer support price for the crop in order to enthuse the farmers to make a shift in the crop which has been subsidized in prices by the government. In India, due to partition in 1947, there was shortage of jute and cotton. So, the government induced the farmers to grow the jute and cotton by adopting various measures.

End of the Unit: III

Reference:

1. Indian Economics – Ruddar Datt and K.P.M. Sundharam
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UNIT-IV
INDUSTRIAL DEVELOPMENT

Introduction

The industrial structure at the commencement of Planning exhibited the features of an underdeveloped economy. On the eve of the First Plan, the industrial development was largely confined to the consumer goods sector, the most important industries were cotton textiles, salt, sugar, soap, leather goods and paper. Industries manufacturing intermediate goods like coal, cement, steel, power, non-ferrous metals, alcohol and chemicals were also established. But their production capacity was very small.

During the pre-British period, India was an industrially advanced country and even India was more advanced in this respect as compared with West European countries. But with the advent of British rule in India all these industries were systematically destroyed by British rulers. Industrial revolution in England and the trade policy followed by the British rulers offered a huge blow to the tradition bound Indian industries. Thus, at the time of independence, industrial base in India was very weak.

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ROLE OF INDUSTRIES IN ECONOMIC DEVELOPMENT OF INDIA:

The industries in India can be broadly classified into;

I. Organized Industries

The organized industries of the country include steel, petroleum, textile, cement, fertilizer, jute, tea, sugar, plywood, engineering etc.

II. Unorganized Industries

The unorganized industries of India include the small and cottage industries, khadi and village industries etc.

The following are some of the important role played by these industries of the economy of the country.

1. **Utilization of Natural Resources**

Utilisation of huge volume of natural resources has become possible with the development of these various types of organized and unorganized industries in the country. The country is still processing a huge volume of various types of mineral, forest and agro-based resources which are mostly remain unutilized or under – utilized . Development of new industrial units can tap these natural resources to the fullest extent.

2. **Balanced Sectoral Development**

From the very beginning, Indian economy has been depending too much on agriculture as major portion of the total population and capital are engaged in agriculture which is again mostly influenced by some uncertain factors. Flood and drought are of common occurrence in the country leading to a failure of crops in some or other areas of the country regularly. This Indian economy has been facing an unbalanced sectoral development. This growing industrialization in the country can attain balanced sectoral development and thereby can reduce too much dependence of the economy on the agricultural sector.

3. **Enhanced Capital Formation**

With the growing industrialization of the economy, the volume and rate of capital formation in the country are gradually being enhanced due to increase in the level of income and saving capacity of the people in general. However, increasing volume of investment industries has led to enhancement in the rate of capital formation in the country.

4. **Increase in National Income**

Organized and unorganized industries are jointly contributing a good portion (i.e, around 24% in 1997-98) of the total national income of the country. Moreover as a result of industrialization the level of national income and capital income of the country also increases at a satisfactory rate.

5. **Increase in Employment**

Development of industrial sector would increase the job opportunities for a huge number of population of the country. Setting up of new industrial units can create job opportunities for million unemployed persons and thereby can lessen the burden of unemployment problem. In India, more then 19.4 million persons are employed in the organized public sector industrial units and nearly 8.4 million persons are employed in the organized private sector industrial units. Agro based industries, unorganized industries and small scale and cottage industries are also generating a huge number of employment opportunities.

6. **Lesser Pressure on Land**

Agricultural sector of the country is bearing the excessive pressure of population. About 66% of the total working population of the country is depending on agriculture for its livelihood. Due to such excessive pressure of population the agricultural sector remain backward. But the industrial development of the country can lesser the burden of the agricultural sector by diverting and engaging such excess population into industrial sector of the country.

7. **Supporting the Development of Agriculture Sector**

Development of industries can provide necessary support towards the development of agricultural sector of the country;. Agro based industries like tea, jute, cotton, textile, sugar, paper etc., called their raw materials from agriculture and therefore provide ready market for the agricultural produce. Moreover, important agricultural implements and inputs like chemical fertilizers, pesticides, tools, equipments etc., are produced and marketed by the industrial sector of the country. Industries have played a crucial role in attaining success in respect of Green Revolution in India.

8. **Attaining Self – Reliance**

Industrialization of the country has been helping the nation to attains self-reliance production of various important goods and successful implementation of import substitution measure have helped the country to minimize its dependence on foreign imports. This has helped the country to save precious foreign exchange.

9. **Favourable Balance of Payment**

Another crucial role played by industrialization is that it promotes exports resulting favourable balance of payment. Generally balance of payment is most unfavourable in the early stages of development due to import of technology, capital goods and raw materials. With industrialization, there is generation of export surplus.

10. **Higher Standard and Social Changes**

Industrialization has been regarded as a vital instrument for eradicating poverty and misery of poor lots. In addition to it, occupational mobility of labour, development of communication, education and infrastructure are associated with industrialization. In turn, it leads to social change in the country.

11. **Supplementing Export**

Development of organized industry like tea, jute, engineering along with handicraft industry are supplementing a good volume of export requirement of the country. By producing low cost product the industrial sector can diversify the market of their products in different countries and thereby can promote foreign trade.

12. **Attaining Economic Stability**

Too much dependence on agriculture makes the Indian economy an unstable one as it is very much prove to natural calamities like flood and drought. Indian agriculture is also dominated by natural factors leading the economy towards uncertainty. In respect of industries human factors are playing a dominant role. Therefore development of a sound base leads to greater stability in an economy like India.

MAJOR INDUSTRIES AND LARGE SCALE

The Modern organized industrial sector of India is of recent origin. Though we have not experience the kind of industrial revolution of Great Britain in the 18^{th} century, a humble beginning was made in the 19^{th} century with the help of foreign capital and enterprise. Indian capitalists started participating in industrial development towards the middle of the last century. In the absence of proper planning, the industries did not develop in the country.

Characteristics

The following are the important features of large scale industries.

- Investment of huge capital
- Employment opportunity to large section of the people
- Higher contribution to nations GDP
- Helps in removing poverty
- Highest contribution to national income of the country
- Provides basic infrastructural facilitates

IRON AND STEEL INDUSTRIES

Write a detailed note on Iron and Steel Industries in India.

Iron and steel industry is the “key” or “basic” industry of India. Rapid industrialization of the country requires rapid development of iron and steel industries. The development of agriculture, consumer goods industry, transport and communication facilities, machines and tools making industry, electrical machinery producing industry etc., are to depend on the development and expansion of iron and steel industries of the country. The real beginning of large scale production of iron and steel through modernized method was made since 1907 when the Tata Iron and Steel Company (TISCO) was established at Jamshedpur. The Indian Iron and Steel Company (IISCO) at Bumpur (Asaxsol) and the Mysore Iron and Steel Works at Bhadrawati (Karnataka). All these belong to private sector.

Just before independence, total production capacity of iron and steel industry in India was only 1.3 million tones (1 million tones of TISCO and 0.3 million tones from Indian Iron and Steel Company (IISCO). After independence, various steps were taken under the economic planning, to develop public sector steel plants in India. Accordingly, the decision to establish first public sector plant was taken in 1954 for establishing Rurkela steel plant. In 1955, another agreement was signed between India and U.S.S.R. to establish the second public sector plant at Bhilai. Again in 1956, another agreement was signed with British consortium for establishing their public sector plant at Durgapur. During the third plan, a new plant was established at Bokaro. During the fourth plan, steps were taken for the development of three more steel plants one each at Salem, Bijoynagar and Visakhapatnam.

Thus with the development of three public sector units, the total production of crude steel ingots has gradually increased from 1.47 million tones in 1950-51 to 23.1 million tones in 1998-99. Total production of finished steel also rose from 1.04 million tones in 1950-51 to 14.3 million tones in 1991-92.

In 1974, the Steel Authority of India Limited (SAIL) was created for the development of steel industry, for supplying major inputs to the industry and also to bring a coordinated and synchronized development of all the major industrial units under its control. The management of IISCO is also undertaken by SAIL. At present about 70% of domestic steel requirement is met by SAIL. The steel industry is producing direct employment to about 2.5 lakhs workers.

Problems;

1. **Inefficiency of public-sector units:**

   These units have been losing continuously and heavily particularly because of heavy investment on social overheads, poor labour relations, poor and inefficient top management, under-utilization of capacity etc.

2. **<u>The problem of administered prices:</u>**

The government had been following, for many years, a system of administered prices, and controlled distribution of steel among consumers. The administered prices regime has been dismantled and the industry is now free to fix prices.

3. **<u>Under-utilization of capacity:</u>**

The under-utilisation of capacity resulting in high cost of production and losses was due to various factors-inadequate supply of coal and power and transport bottlenecks, lack of proper maintenance, poor management, specially frequent changes in the top management of public sector steel plants, and extensive labour trouble.

4. **<u>Sickness of mini-steel plants</u>**:

The main problems faced by these units included short supply of inputs and a sharp increase in prices of inputs like electrodes and scrap, inadequate power supply, constraint of working capital and poor management

<u>SUGGESTIONS</u>

Improvement and up gradation of technologies.
Arrangements for the supply of best quality coal.
Full utilization of its capacity.
Solution of labour disputes and,
Arrangement for proper training of workers.

<u>COTTON TEXTILE INDUSTRY</u>

<u>Write a note on Cotton Textile Industry in India.</u>

The cotton textile industry is one of the oldest and firmly established major organized industries of India. In 1818, the first unit of cotton textile industry was established at Fort Gloster situated near Calcutta. Later on, real base of this industry was established in 1854 with the establishment of another cotton textile mill at Bombay. At present Bombay and Ahmedabad are two major centers of cotton textile industry in India.

The textile industry continues to be the largest industry in our country. It accounts for 20% of total industrial output, provides employment to 20 million people and contributes nearly 38% to the total value of exports.

At the end of March 1996, there were 1569 textile mills in India. This industry is provided direct employment to nearly 17 lakh workers which account nearly 18% of the total factory workers of the country.

Divisions of Textile Industry

The textile industry has mainly three divisions.

- The highly mechanized mill industry producing yarn and cloth.
- The power loom factories producing cloth from mill-made yarn and
- The handloom units producing cloth from both mill-made and hand spun yarn.

Problems

1. Government controls and heavy excise duties
2. Problem of raw materials
3. Obsolete machinery and need for modernization
4. High cost and competition in foreign markets
5. Competition from the decentralized sector

Remedial measures

- Increasing financial assistance for its modernization.
- Reduction of import duties on the import of textile machineries.
- Reduction of excise duties on imported yarn.
- Setting up National Textile Corporation (NTC) to run the sick units.
- Introduction of New Textile Policy in 1985 for the modernization of expansion of this industry.

All these measures are introduced by the government for the improvement of condition of cotton textile industry in India.

SUGAR INDUSTRY

In India the sugar industry had its origin in 1903 when a sugar factory was established each in Bihar and Utter Pradesh. In 1950-51, there were 138 sugar factories in India and their total production was only 11.34 lakh tones. In order to meet its growing demand, more and more sugar factories were established. As on 31st May 1988, there were 414 sugar factories in India with licensed capacity of 10.4 million tones. Sugar industry employs about 3.25 lakh workers besides generating indirect employment of 25 million sugarcane growers.

Total production of sugar increased from 11.3 lakh tones in 1950-51 to 27.4 lakh tones in 1970-71 and them to 155.2 lakh tones in 1998-99. Bihar and Utter Pradesh were two largest producer of sugar producing about 60% of sugar in 1960. But with the expansion of industry in other states like Maharastra, Andhra Pradesh, Tamil Nadu and Karnataka, the share of production of Bihar and Utter Pradesh had declined to 28% in 1980-81. The government set up a Sugar Development Fund in 1982 to advance soft loan to the sugar-producing units for the rehabilitation and modernization of sugar producing units for production of sugarcane in and around the sugar factory area. The amount of fund allocated is Rs. 900 crs and out of which the fund advanced loan to the extend of Rs. 490 crs for the said purpose. In 2005-06 the production of sugar in India was 18.5 million tones.

Problems

1. Shift in locational pattern
2. Role of the co-operative sector
3. Need for cane development
4. Competition from gur production
5. Problem of production of sugar
6. The problem of high prices of sugar
7. The problem of by-products
8. Faulty Government policy.

COTTAGE AND SMALL SCALE INDUSTRIES

Introduction

The term cottage and small scale industry has been differently defined by different committees and commissions.

According to fiscal commission (1945-50), the cottage industry is one which is carried on wholly or primarily with the help of the members of the family either as a whole or a part time occupation. Small scale industry is one which is operated mainly with hired labour, usually with 10 to 50 hands and not carried on in the cottage of the workers. In 1996-97, the government of India has again enhanced the investment ceiling for small scale industries (SSI) and ancillary units from Rs. 60 lakhs and Rs. 75 lakhs respectively. In 1999-2000, the investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crs to Rs, 1 cr.

Definition:

According to definition of the Fiscal Commission in 1950 " A cottage industry is one which is carried on wholly or primarily with the help of the members of the family, either as a whole or a part- time occupation. A small-sclae industry, on the other hand, is one which is operated mainly with hired labour, usually 10 to 50 hands."

What are the characteristics or features of cottage or household industries?

The following are some of the important features of cottage industries.

1. Such industries can be carried on with the help of family members or hired persons.
2. Its number does not exceed 10.

3. The amount of investment in these units is very small.
4. The raw materials are generally available at door step and tools used are very simple.
5. Hand power is used.
6. The market of these products thrives on the local market.
7. They absorb only part time workers.

What are the characteristics or features of small scale industries?

The following are some of the important features of small scale industries.

- They are localized in urban and semi urban areas.
- They use modern machines, power etc.
- Capital investment in these units is not more than Rs. 10 lakh.
- They are run by small entrepreneurs and self supporting workers.
- They employ labour on wages.
- They produce goods for extended market.
- They work on permanent basis.

Explain the Role or Importance of Small Scale and Cottage Industries in an Economy.

The following are the main roles of small scale and cotton industries in an economy.

1. Capital Light

Small scale enterprises are organized and run by small and medium entrepreneurs. It requires very lesser capital.

2. Production

Production in small-scale is also skill- light, so it can be carried on with simple techniques and machines at lower cost.

3. Management

Management of small firms is comparatively simpler and easier than large firms. Mostly the proprietor manages the firms.

4. Product Quality

Unlike large firms, small firms can pay attention to the quality of products and produce goods to individual taste.

5. Labour Problem

Small firms are free from labour troubles. The perfect understanding between the employer and employees avoid all disputes and strikes in small firms.

6. Equitable Distribution of Income

Small scale industries has been resulting more equitable distribution of national income and wealth. This is mainly due to the fact that the ownership of small scale industries is quite wide spread as compared to large scale industries.

7. Regional Disparities of Industries

Small scale industries are playing an important role in dispersing the industrial units of the country in the various parts of the country. As the large scale industries are mostly located in some states like Maharastra, West Bengal, Gujarat, Tamil Nadu thus disposal of small scale industrial units throughout the county can achieve a balanced pattern of industries development in the country.

8. Capital Formation

Advocates of cottage and small scale industries favour on the basis that they are helpful for making capital formation at village levels. As such, these industries spread over country side. The savings which are lying unused can give a good scope for capital formation.

9. Low Gestation Period

In the case of cottage and small scale industries, there is low gestation period i.e., time lag between the execution for the investment project and the start of flow of consumable is short.

10. Mobilization of Entrepreneurial Skill

Small scale industries can mobilize a good amount of entrepreneurial skill from rural and semi – urban areas remained untouched from the clutches of large scale sector. Thus a huge amount of talent resources are being mobilized by the small scale industries for the industrial development of the country.

What are the various Problems or Weaknesses of Small Scale Units?

- Production of large number of good and services is impossible.
- It cannot apply division of labour techniques.
- It cannot enjoy cost advantage in purchasing raw materials.
- Entrepreneurial have limited scope for cheap credit facilities.
- Small scale producers cannot afford to spend sum of money on research and development.
- Small scale units have to face heavy competition from large-scale units and imported articles.
- Another problem of small scale units is the substantial under utilization of capacity varying between 47 to 58 percent.

What are the Remedial Measures to correct the Problems of Small Scale Units?

- Improvement in techniques and adoption of modern technology in these small scale units.
- Imparting proper education and training to workers engaged in small scale industries.
- Regular supply of inputs at reasonable rate.
- Adequate credit arrangements
- Provision for cheap and regular supply of electricity.

INDUSTRIAL SICKNESS IN INDIA

Dimensions of the Problem of Industrial Sickness.

The incidence of industrial sickness has been growing in India during the last decade. Not only some of the traditional industries of cotton textiles, jute and sugar have been afflicted with sickness, but even some other important industries like engineering, chemicals, rubber, cement, electrical and paper have been affected.

Economic Survey (1989-90) lamenting the prevailing situation mentions: “Growing incidence of sickness has been one of the persisting problems faced by the industrial sector of the country. Substantial amount of lonable funds of the financial institutions is locked up in sick industrial units causing not only wastage of resources but also affecting the healthy growth of the industrial economy.”

Overview of Industrial Sickness in India at the end of the March 2001

Sl.No	Units	No. of Sick Units	Total Bank Credit Locked up (Rs. Crores)	Per cent of Total
1	Non-SSI sick units	1,956	8,823	64.2
2	Non-SSI weak units	418	1,203	8.7
3	SSI-sick units	2,62,376	3,722	27.1
Total		**2,64,750**	**13,748**	**100.0**

Source: Compiled from RBI, Report on Currency and Finance

The total bank credit locked up in sick/weak units increased from Rs. 13,134 crores as at end of March 1993 to Rs. 13,748 crores as on 31st March, 1996. These included Non-sick units, Non-SSI weak units and SSI-Sick units. Out of the total bank credit locked-up in sick/weak units, Non-SSI sick units accounted for Rs. 8,823 crores (i.e., 8.7 per cent) and SSI-sick units Rs. 3,722 crores (i.e., 27.1 per cent).

Factors Responsible for Industrial Sickness in Large and Medium Scale Units.

The two sets of factors are responsible for industrial sickness i.e., exogenous and endogenous.

The exogenous factors relate to such factors as:

1. Government policies pertaining to production
2. Distribution and prices
3. Change in the investment pattern following new priorities in the plans
4. Shortage of power
5. Transport
6. Raw materials

Such factors are likely to affect all units in an industry. These factors can result in the sickness of the industry and thus deserve corrective action at the level of the State.

The endogenous factors are:

1. Mismanagement
2. Diversion of Funds
3. Wrong Dividend policy
4. Excessive overheads
5. Lack of Provision for depreciation of machinery and other equipment
6. Over-estimation of demand.

The Sixth Plan after making a careful analysis of the factors leading to sickness concludes: "However, perhaps the most important of all causes of sickness is the incompetence or the cupidity of the management."

Principal factors Responsible for Sickness of Small-Units.

A review of the various studies regarding small-scale units reveals the following:

1. Lack of management enterprise
2. Non-observance of the basic principles of business management
3. Under-utilization of capacity
4. Easy approval of small-scale units
5. Mostly depend on their own funds
6. Non-payment by the 'principals' to the ancillaries.

Remedies to Cure the Industrial Sickness in India. Measures to prevent Sickness / Revive Large and Medium Scale Sick units /

It has also been observed that the funds of the company are diverted to some other concern owned by the business house, taking advantage of the legal loopholes. To check these malpractices, the Report of the Working Group of Central Trade Unions (1978) suggested:

"It is, therefore, necessary that whenever a company is taken over, all other concerns belonging to the same family should also be taken over or recover the amount, so diverted or misappropriated, by the management from their other companies or the personal assets of the members of the Board of Directors."

The Working Group of Central Trade Unions recommended that the two relevant statutes, namely, the Industries (Development and Regulation) Act, 1951 and companies Act should be amended to provide for:

1. Deterrent penalties to parties responsible for sickness of the units and for recovering all dues including compensation from their other corporate / personnel assets.
2. Expeditious takeover of the unit likely to become sick or already sick.
3. Simultaneous financial and management-restructuring of the units, safeguarding of workers' interests in respect of all dues.
4. Preparation and implementation of a revival plan for the unit with provision of the requisite funds, barring reversion of the unit to the erstwhile management.

Measures to prevent sickness in Small Units.

The problem of industrial sickness in small units has to be treated differently from the problem of sickness of the large units. It is basically the problem of increasing the competitive strength and viability of the small units.

For this purpose, the following measures deserve consideration:

(i) The Reserve Bank of India should issue guidelines for the operation of small units and thus make professional management expertise available for the guidance of small entrepreneurs.

The management expertise should acquaint the small entrepreneur with the need for a better equity base, prescribe norms for allocation of their surplus to depreciation, retained profits and expansion programmes so as to build their internal financial strength.

(ii) Since a majority of sick units die in the second or third year of their existence, a programme of monitoring and nursing them during infancy is very essential. In this way, the misuse of funds for purposes other than specified, and the factors leading to low capacity utilization can be examined and quick remedial action taken.

(iii) The government can accord priority in allocation of scarce raw materials, extending marketing assistance and granting certain rebates and concessions to small units and more so to such units which show better record of performance.

(iv) Sickness of small units should be treated at par with scarcity / famine in agriculture and thus concessional rates of interest be charged at par with those loans, that are granted in scarcity / famine conditions in agriculture. The maximum rate of interest should be 7 per cent for small sick units to enable them to secure soft credit.

(v) The government should take penal action against the principles for non-payment for the delivery of goods by small units.

INDUSTRIAL LABOUR ORGANISATION

TRADE UNION MOVEMENT

Trade unions are voluntary organizations of workers formed to promote and protect the interests of workers through collective action. The first quarter of the twentieth century saw the birth of the trade union movement in India, though the germs of the movement were to be found in the quarter of the 19^{th} century. S.S.Bangalee, M.Lokhande and others succeeded in forming trade unions, organizing strikes and in general, in bettering the conditions of the working classes. However, it was not until the close of First World War that the modern trade union movement really took permanent roots in Indian soil.

Development of Trade Union Movement

In the twenties, soon after the First World War the Indian working classes realized the effectiveness of strike as a means of obtaining concessions, higher wages and improvement of working conditions. A series of strikes were declared. The success of most of these strikes led to the organisation of many unions. In 1920, the All-India Trade Union Congress (A.I.T.U.C.) was set up to represent the interests of the workers and also to co-ordinate the activities of all *labour organisations* in the country and to help in the extension of the movement, where it had not penetrated. The setting up of the A.I.T.U.C. gave a great fillip to the rapid formation of unions throughout the country and in big and small industries. Their number as a well as membership increased manifold.

In 1926, the Trade Unions Act was passed, which was a landmark in the history of the trade union movement in the country. The Act gave a legal status to the registered trade unions and conferred on them and their members a measure of immunity from civil suits and criminal prosecution. Registration of trade unions enhanced the status of unions before the general public and the employers.

Towards the end of 1920's there was a split in the trade union movement on account of ideological differences between trade union leaders. The A.I.T.U.C. was captured by the Communities while the moderates started a new central labour organisation known as the All-India Trade Union Federation. The conflict among the leaders confused labour and resulted in the failure of many strikes.

The 1930's started with a climate which was not favourable to the growth of the trade union movement. The prosecution of the communities involved in the Meerut conspiracy case and the failure of the Bombay Textile Strike of 1929 brought a lull in trade union activity. The serious economic depression of this period had the same effect. There was widespread retrenchment (due to economic depression) and the strikes of this period aimed at maintaining wages and preventing retrenchment. During the period there were further splits in the trade union movement but ultimately, just before the Second World War, unity in the movement was brought about.

Trade Union during Second World War

The Second World War created an emergency and the trade union leaders again split on the question of participating in the war. The Communists following the Russian Communist Party wanted to help the

British to fight out the Nazis, while nationalist leaders wanted to strengthen the national movement to overthrow British rule from India. This led to a sharp ideological rift and the trade union movement was split again. Industrial unrest increased during the war because of the mounting cost of living. The Government used the Defense of India Rules and prohibited strikes and lockouts and referred industrial disputes to conciliation and adjudication. But the deteriorating economic conditions made workers conscious of the need for making organized efforts for securing relief. This gave a fillip to the trade union movement and there was a marked increase both in the number of unions and of organized workers.

After Independence

With independence and partition, the country was plunged into growing unemployment. The high hopes of the workers for securing better wages, service conditions and amenities from the national government were shattered. The workers found it necessary to struggle hard even to retain what they had obtained earlier. A series of strikes swept the country and the number of strikes and man-days lost during the period were the highest ever recorded in the country. The disunity in the trade union ranks was aggravated by the starting of three Central Organisations during this period. This Indian National Trade Union Congress (I.N.T.U.C.) was started in 1947 and was controlled by the Congress Party. The Hind Mazdoor Sabha was started in 1948 by the Praja Socialist Party. The United Trade Union Congress (U.T.U.C.) was formed in 1949 by some radicalists. All these labour organisations have been working for the betterment of labour. Moreover, there is not unity between them nor do they follow common policies or ideologies.

The following are the Trade Unions of India.

1. Indian National Trade Union Congress (INTUC)
2. All-India Trade Union Congress (AITUC)
3. Centre of Indian Trade Unions (CITU)
4. Hind Mazdoor Sabha (HMS)
5. Bharathiya Mazdoor Sangh (BMS)
6. United Trade Union Congress (UTUC)
7. United Trade Union Congress-Lenin Sararni (UTUC-LS)
8. National Federation of Independent Trade Unions (NFITU).

The trade union movement is more widespread and has taken deep roots. It is now better organized and is on a more permanent footing.

Measures to Strengthen the Movement

The interests of employees can be best protected and promoted by the creation of a trade union having a bargaining power equal to that possessed by the management. The following measures are to strengthen the movement.

1. Need for Unity
2. Eliminating unhealthy political influence
3. One Union, one industry
4. Working class leadership
5. Responsible trade union leadership
6. Responsibilities of workers
7. Greater usefulness of unions.

1. Need for unity

At present political rivalries which often come in the way of settlement of disputes, disunity among come the ranks of workers and multiplicity of trade unions are responsible for lack of strength and poor bargaining power of the unions. Unity in the movement is a necessity. All those who believe in the trade union movement should join hands to form a single central organisation to represent all their demands.

2. Eliminating Unhealthy Political Influence

At present trade union leadership is in the hands of politicians, because the movement is controlled by the political parties. The trade union leaders because of their loyalty to the ideology of their parties are prepared to sacrifice the interests of the working classes to serve party ends. It is high time that the workers realize the utter uselessness of party politics in trade unionism.

3. One Union, One Industry

Multiplicity of unions in the same industrial establishment leads to inter-union rivalries which ultimately cuts at the root of the movement. It weakens the power of collective bargaining and reduces the effectiveness of workers in securing their legitimate rights. So far, one union for one industry has not yet been achieved in India. This is highly essential to improve the effectiveness of the movement.

4. Working Class Leadership

In India, as in other countries, trade unions were formed by the so called ‘outsiders’. The workers were poor and illiterate and were in constant dread of being thrown out of employment. The ‘outsider’ with his influence in the local are was, therefore, requested by the workers to assist in forming trade unions and to represent their grievances to their employers.

The outsiders were mostly professional agitators and were often interested in using workers as pawns in their political game. Inter-union rivalries are often the result of this outside leadership. It is essential that trade unions should be taken over the workers themselves.

5. Responsible Trade Union Leadership

Trade union leaders should also acquire full understanding of the constitutional and legal rights available to the unions. They must try to make use of these rights to secure and promote workers’ interests. Personal integrity, love of liberty, patience, understanding, industry and courage are some of the qualities a trade union leader should have.

6. Responsibilities of Workers

At present, trade unions confine their attention to the workers’ demands only. It is high time they inculcate in the workers a sense of discipline and responsibility to do full day’s work for a fair day’s wages. The Unions should make every worker understand fully first his duties and responsibilities and then his rights and privileges. Besides, the worker should be made to feel that he is building up in his own humble way a prosperous State.

7. Greater Usefulness of Unions

Indian trade unions are more or less strike committees. If trade unions are merely serve the purpose of representing individual or general grievances of the working classes, the moment the redress is obtained, the interests of the workers would sag, such a state of affairs should be avoided. Trade unions should provide certain benefits to the workers, such as compensation for accidents, medical aid, education, thrift and temperance, etc.

<u>Industrial Relations in the Public and Private Sectors.</u>

It would be of interest to study industrial relations between the public and the private sectors by developing certain indices. The following indices have been used for this purpose:

1. Proportion of workers involved in industrial disputes to the total numbers of workers.
2. The total number of man-days lost and the average number of workers involved per dispute.
3. The average number of man-days lost per worker in an industrial dispute.

1. Proportion of Workers involved in Industrial Disputes

Data pertaining to the proportion of workers involved in industrial disputes to the total number of persons employed reveal the following:

For the entire period (1973 to 1995), the percentage of workers involved in industrial disputes was much lower in the public sector than in the private sector. In most of the years, the proportion of workers involved in industrial disputes in the private sector was double than that in the public sector. In some years, it was as high was four times or more (1973, 1975, 1985). However, after 1987, this trend seems to be reversed and the proportion of workers involved in industrial disputes in the public sector is much higher than in the private sector.

2. Number of Man-days lost and the Average Number of Workers Involved per Dispute

Though the number of man-days lost in the public sector is less than that in the private sector, the average number of workers involved per dispute is more in the public sector than in the private sector. This is due to the nature of activities carried on in the public sector. Life Insurance, Railways, post and telegraph, bank employees, iron and steel etc., are all parts of much bigger organisations. Consequently, whenever strikes are organized in the public sector, though after long intervals, they affect large number of workers.

3. Average number of Man-days Lost Per Worker

Average number of man-days lost per worker reveals that in the public sector, there is comparatively much less time required for resolving a dispute, but in the private sector, it has taken much longer. For instance during the 20-year period, but for 1981 average number of man-days lost per worker has remained between 4 to 10 in the public sector, but during the same period, in the private sector, the average loss of man-days per worker has been between 10-86.

INDUSTRIAL POLICY

The term "Industrial Policy" refers to the Government's policy towards the establishment of industries, their working and management. It includes all those principles, regulations, rules, etc., which would influence the industrialization of the country and also nationalization of industries.

The industrial development of a country largely depends on the industrial policy adopted by the Government. During the British days, the Government followed a policy of Laissez-faire in industrial development. Only during war periods some measures were taken up by the government which were nothing but adhoc measures to meet the exigency.

INDUSTRIAL POLICY RESOLUTION, 1948

The industrial policy Resolution of April 1948 contemplated a mixed economy, reserving a sphere for the private sector and another for public sector. Objectives:

a. the establishment of a social order wherein justice and equality of opportunity shall be secured to all the people.
b. The promotion of standard of living of people by exploiting resources
c. The increase in production both agricultural and industrial
d. The offering of opportunities to all for employment
e. The need for careful planning and integration of efforts and the establishment of a National Planning Commission
f. The determination of state responsibility and private enterprise in industrialization.

INDUSTRIAL POLICY RESOLUTION, 1956

Since the adoption of 1948 Resolution, significant development took place in India. Economic planning had proceeded on an organized basis and the First Five-Year Plan had been completed. Parliament had accepted 'the socialist pattern of society' as the basic aim of social and economic policy. These important developments necessitated a fresh statement of industrial policy. A second Industrial Policy Resolution was adopted in April, 1956, replacing the Resolution of 1948. Important provisions of the 1956 Resolution were:

1. New Classification of industries
2. Fair and non-discriminatory treatment for the private sector
3. Encouragement to village and small-scale enterprises
4. Removing regional disparities and
5. Attitude towards foreign capital.

1. New Classification of Industries

The resolution laid down three categories which bear a close resemblance to the earlier classification, but were more sharply defined and were broader in coverage as to the role of the State. These categories were:

(a) Schedule A : those which were to be an exclusive responsively of the state;

(b) Schedule B : those which were to be progressively state-owned and in which the state would generally set up new enterprises, but in which private enterprise would be expected only to supplement the effort of the state; and

(c) Schedule C : all the remaining industries and their future development would, in general be left to the initiative and enterprise of the private sector.

2. Fair and Non-Discriminatory Treatment for the Private Sector

In other that the private sector may feel confident and function efficiently, the State was to facilitate and encourage the development of industries in the private sector by ensuring the development of the fiscal and other measures.

3. Encouragement to Village and Small-Scale Enterprises

The State would support cottage and village and small-scale enterprises by restricting volume of production in the large-scale sector, by differential taxation, or by direct subsidies. The state would concentrate on the measures designed to improve the competitive strength of the small-scale producer by constantly improving and modernizing the technique of production.

4. Removing Regional Disparities

The Resolution stressed the necessity of reducing the regional disparities in levels of development in order that industrialization may benefit the country as a whole. The resolution fully supported the idea that only by securing a balanced and coordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.

5. Attitude Towards Foreign Capital

The government recognized the need for securing the participation of foreign capital and enterprise particularly as regards industrial technique and knowledge so as to foster the face of industrialization of the Indian Economy.

The Resolution, made it amply clear, “that as a rule, the major interest in ownership and effective control, should always be in Indian hands. In all cases, however, the eventually replacing foreign experts will be insisted upon.”

Thus, while recognizing the need for foreign capital in the industrialization of the economy, the government insisted upon the progressive of foreign concerns.

INDUSTRIAL POLICY STATEMENT, 1977

In Decenber 1977, the Janatha Government announced a New Industrial Policy by way of a Statement in the Parliament.

The elements of the new policy were:

1. Developing of Small-Scale Sector--the main thrust of this policy
2. Areas for Large-Scale Sector
3. Approach towards Large Business House
4. Expanding Role for the Public Sector
5. Approach towards Foreign Collaboration and
6. Approach towards Sick Units.

1. Developing of Small-Scale Sector—the main thrust of the Policy

The Janatha policy statement categorically mentioned: “The emphasis on industrial policy so far has been mainly on large industries, neglecting cottage industries completely and relegating small industries to a minor role… The main thrust of the new industrial policy will be on effective promotion of cottage and small industries widely dispersed in rural areas and small towns.

It is the policy of the government that whatever can be produced by small and cottage industries must only be so produced.” The small sector was classified into three catogories:

(a) cottage and household industries which provide self-employment on a wide scale;

(b) Tiny sector incorporating investment in industrial units in machinery and equipment up to Rs. 1 lakh.

(c) Small-scale industries comprising industrial units with an investment up to Rs. 10 lakhs and in case of ancillaries with an investment in fixed capital up to Rs. 15 lakhs.

2. Areas for Large-Scale Sector

According to the 1977 Industrial Policy Statement, the role of large-scale would be related to the programme for meeting the basic minimum needs of the population through wider dispersal of small-scale and village industries and to the strengthening of the agricultural sector. The Industrial Policy therefore, prescribed the following areas for large-scale sector:

(a) Basic industries, essential for providing infra-structure as well as for development of small-scale and village industries, such as steel, nonferrous metals, cement, oil refineries.

(b) Capital goods industries for meeting the machinery requirements of basic industries as well as small-scale industries.

(c) High technology industries which required large-scale production and which were related to agricultural and small-scale industries development such as fertilizers, pesticides and petrochemicals, etc., and

(d) Other industries which were outside the list of reserved essential for the development of the economy such as machine tools, organic and inorganic chemicals, etc.

3. Approach towards Large Business Houses

The Industrial Policy Statement stated in unequivocal terms: “The growth of Large Houses has been disproportionate to the size of their internally generated resources and has been largely based on borrowed funds from public financial institutions and banks. This process must be reversed.”

4. Expanding Role for the Public Sector

The 1977 Industrial Policy Statement specified that the public sector would not only be the producer of important and strategic goods of basic nature, but it would also be used effectively as a stabilizing force for maintaining essential supplies for the consumer. The public sector would be charged with the responsibility of encouraging the development of a wide range of ancillary industries, and contributing to the growth of decentralized production by making available its expertise in technology and management to small-scale and cottage industry sectors.

5. Approach towards Foreign Collaboration

The Industrial Policy stated: “In areas where foreign technological know-how is not needed, existing collaborations will be renewed.”

The Policy statement further elucidated: “As a rule, majority interest in ownership and effective control should be in Indian hands though the Government may make exceptions inn highly export-oriented and/or sophisticated technology areas. In hundred per cent export-oriented cases the Government may consider even a fully owned foreign company.”

6. Approach towards Sick Units

The Policy Statement suggested a selective approach on the question of sick units. It mentioned: “While the Government cannot ignore the necessity of protecting existing employment the cost of maintaining such employment has also to be taken into account. In many cases, very large amounts of public funds have been taken over but they continue to make losses which have to be financed by the public exchequer. This process cannot continue indefinitely.”

INDUSTRIAL POLICY OF 1980

The Congress government announced its industrial policy in July, 1980. Outlining the philosophy behind the Industrial Policy of 1980, the Minister for Industry stated: “The Industrial Policy announcement of 1956 in fact reflects the value system of our country and has shown conclusively the merit of constructive flexibility. In terms of this resolution, the task of raising the pillars of economic infrastructure in the country was entrusted to the public sector for reasons of its greater reliability for the very large investments required and longer gestation periods of the projects crucial for economic development. The 1956 resolution, therefore, forms the basis of this statement.” It, therefore, suggested the following measures:

1. Effective Operational Management of the Public Sector
2. Integrating Industrial Development in the Private Sector by promoting the concept of Economic Federalism

3. Redefining of Small Units
4. Regularization of Unauthorized excess Capacity Installed in the Private Sector
5. Automatic Expansion and
6. Industrial Sickness.

1. Effective Operational Management of the Public Sector

The 1980 statement accepted that there has been an erosion of faith in the public sector in recent years. For this purpose, Government decided to launch a drive the efficiency of public sector undertakings.

2. Integrating Industrial Development in the Private Sector by Promoting the Concept of Economic Federalism

The Policy statement categorically asserted: "It will be government's endeavour to reverse the trends of the last three years towards creating artificial divisions between small and large-scale industry under the misconception that these interests are essentially conflicting. While making all efforts towards integrated industrial development, it proposed to promote the concept of economic federalism with setting up of a few nucleus plants in each district, identified as industrially backward, to generate as many ancillaries and small and cottage units as possible."

3. Redefining of Small Units

In order to boost the development of small scale industries, government decided:

(i) to increase the limit of investment in the case of tiny units from Rs. 1 lakh to Rs. 2 lakhs.

(ii) To increase the limit of investment in case of small-scale units from Rs. 10 lakhs to 20 lakhs and

(iii) To increase the limit of investment in case of ancillaries from Rs. 15 lakhs to Rs. 25 lakhs.

4. Regularization of Unauthorized excess Capacity Installed in the Private Sector

The 1980 statement further simplified the procedure for regularization of unauthorized excess capacity. For instance, while regularizing installed capacities in excess of the 'licensed capacities', FERA and MRTP Companies would be considered on a selective basis. This facility would not be given in respect of items reserved for the small sector.

5. Automatic Expansion

Another concession to the large-scale sector pertained to the extension and simplification of the facility to automatic expansion to all industries specified in the First Schedule of the 1951 Industrial Development and Regulation Act.

6. Industrial Sickness

In the case of existing sick undertakings which showed adequate potential for revival, the government would encourage their merger with healthy units which were capable of managing the sick undertakings and restoring their viability. Management of sick units would be taken over only in exceptional cases on grounds of public interest where other means for the revival of sick undertakings were not feasible.

INDUSTRIAL POLICY STATEMENT, 1991

The year 1991 and 1992 were special significance in the Indian Economy, as it was in the transitional stage from semi-controlled and bureaucratic-managed phase to liberalized market-oriented regime. Many economic measures were introduced to achieve the objectives of new economic policies of Government.

The Government of India announced a new Industrial Policy (NIP) on July 24, 1991. The main objectives of the NIP are to build on the gains already made, correct the distortions and weaknesses that might have crept.

Objectives

- ✯ To relieve the Indian industries from bureaucratic control.

- ✯ To introduce liberalization so that the Indian economy can keep pace with world economy.
- ✯ To remove the restriction on direct foreign investment.
- ✯ To remove the restriction of MRTP Act in favor of the domestic entrepreneurs.
- ✯ To reduce the load of the public sector enterprise which have been incurring loss over the years.

To realize those main aims the government took steps in respect of the policies in the following areas.

<u>Important Aspects of Industrial Policy, 1991</u>

1. Industrial licensing

The new industrial policy made all essential procedures fully transparent and eliminated the inordinate delays. The role of government was changed from that of controlling to one of providing guidance and help. Industrial licensing was abolished to other industries except those related to security and strategic concerns, social regions, hazardous chemicals and over riding environmental reasons, items of elitist consumption and projects where imported capital goods are not required.

2. Foreign investment

Foreign direct investment (FDI) in Indian companies is invited. Approval will be granted for investment up to 51% of foreign equity in priority industries. The government allowed the inflow of such foreign investments in specific areas where huge capital investment and sophisticated and advanced foreign technology are indispensably needed.

3. Foreign technology agreements

With a view to infuse dynamism into the Indian industrial activities, government decided to grant automatic approval for the import of foreign technology and for entering into technological agreement with foreign countries. There is no need to obtain permission for hiring for foreign technicians.

4. Public sector management

Since the government had committed to establish socialistic pattern of society, main trust was given to the public sector enterprises. Their role was very powerful and significant in the determination of the country's industrial development in particular and economic development in general.

But with the ushering of global changes in economic activities and the worldwide transition to market economy, the burden of public sector enterprises has to be minimized, with the effective alternative of privatization of economic institution. Many public sector enterprises in the past had been continuously incurring loss over the years and their productivity in terms of return had been very low. Therefore, the following measures were adopted.

5. Monopoly Restrictive and Trade Practice Act

1. Suitable amendments were made in the MRTP Act in such a way that the provisions restricting monopoly were abolished.
2. More powers were vested with the MRTP Commission to take action against unfair trade practices.
3. The system of pre-entry scrutiny of investment decision by MRTP companies will be removed.
4. Provides for unrestricted transfer of shares.

Reference: Indian Economy- S.Sankaran
Indian Economy- Ruddar Datt & K.P.M.Sundharam.

END OF IV UNIT

UNIT-V

<u>ECONOMIC PLANNING</u>

<u>PLANNING: Or Explain the concept Planning.</u>

Planning consists of totality of arrangement decided upon so as to carry out a project related to economic activity. Plan is definable in two elements, i.e.,

- A project that is an end which one proposes to achieve and
- The arrangements decided upon in order so that the end maybe achieved which indicates the determination of means.

Define Economic Planning.

According to Levy, "Economic planning means securing a better balance between demand and supply by a conscious and thoughtful control either production or distribution or of both, rather leave this balance to be affected by automatically working, invisible and uncontrollable forces ."

What are the implications (steps) in planning?

Formulation of objectives
↓
Fixing targets and priorities
↓
Mobilizing resources
↓
Organization to execute
↓
Set up machinery for evolution or assessment of progress

What are the Importance or Benefits or Uses or Needs of Planning?

The following are the importance of planning.

1. Equitable distribution of economic power

Planning is quite important for attaining equitable distribution of economic power. Under price mechanism, equitable distribution of economic power is never possible to attain as there is no such mechanism init, leading to accentuation of economic inequalities from generation to generation. Under such a situation, a planning paves the way for equitable distribution of income and wealth.

2. Stability

Planning machinery is considered to be a powerful instrument for eliminating economic instability resulting from market economic structure. In order to prevent the violent fluctuation in business activity and to smoothen the business level planning has a definite role to play.

3. Eliminating wasteful competition

Planning machinery can wipe out wasteful competition from the market and can ensure fair competition. Planning authority provides necessary support to the market economy for its smooth functioning by adopting a proper planning market economy mix.

4. Co-ordination

Planning is important for attaining suitable co-ordination among the sector so as to avoid unnecessary duplication of staff and equipment. By attaining proper co-ordination among the different sectors, planning paves the way for balanced economy.

5. Optimum utilization of resources

Planning is important for attaining optimum utilization of resources. Planning makes the distinction between essential and non-essential uses of resources and channelise the scarce investible resources for its essential purposes. Planning provides necessary direction for diverting the resources from the production of luxurious and nonessential into production of commodities for mass consumption and necessaries.

6. Capital formation

Planning helps a country to attain higher rate of capital formation in the long run which cannot be expected from a private enterprise economy. Planning machinery works on national interest and can have a farsighted view. The surplus of the public undertakings helps the country to build up capital asset for the entire nation.

Objectives or Aims of Economic Planning in India:

In a developing country like India, economic planning is playing a very important role towards its economic development. The major objectives of economic planning in India can be summarized as follows:

(1) **Economic Growth**: Attainment of higher rate of economic growth received topmost priority in almost all five year plans of the country. As the economy of the country was suffering from acute poverty thus by attaining a higher rate of economic growth eradication of poverty is possible and the standard of living of our people can be improved.

(2) **Attaining Economic Equality and Social Justice**: Reduction of economic inequalities and eradication of poverty are the second group of objective of almost all the five year plans of our country particularly since the fourth plan.

(3) **Achieving Full Employment**: Five year plans of India gave importance on the subject to employment generation since the Third plan. The generation of more employment opportunities was considered as an objective of both the Third and Fourth Plan of our country .

(4) **Attaining Economic self-reliance**: One of the very important objective of Indian Planning is to attain economic self-reliance. But this objective attained its importance only since the Fourth Plan, when the plan aimed at elimination of the import of food grains under PL 480.

(5) **Modernization of various sectors**: Another very important objective of Five Year Plans of our country was the modernization of various sectors and more specifically the modernization of agricultural and industrial sectors.

Write a note on the achievements of planning.

1. Increase in National Income

National income, being an indicator of development can show the progress of the economy achieved during plans. During the period 1950-51 to 1996-97, the national income of India at 1980-81 price increased by 539%. During the plan period i.e., from 1950-51 to 1980-81, the annual average growth rate of national income at 1980-81 prices was 3.4%. During 1980-81 to 1991, the annual growth rate of national income at 1980-81 prices was 5.3%. During 1990-91 to 2001-02, the same growth rate at a constant price stood at 5.5% per annum.

2. Increase in Per-Capita Income

During the period 1950-51 to 1996-97, the per-capita income of India at 1980-81 prices increased by 145% . The annual growth rate of per-capita income which was 1.7% and 1.9% respectively during the first and second plan. Gradually increased to 3.6% and 4.9 % respectively during the seventh and eight plan. In 2001-02, the per-capita income at 1993-94 prices rose by about 4.3%.

3. Increase in the Rate of Capital Formation

During the plan perioid1950-51 to 1997-98, the gross domestic capital formation as percent of GDP increased from a mere 10.2% to 26.2%. And at the end of the ninth plan, i.e., in 2001-02, the same rate stood at 23.7%. Thus, during the last five decades of planning India had been able to realize a considerable progress in attaining higher rate of capital formation.

4. Development of Agriculture

During the plan period 1950-51 to 1990-91, the agricultural production of food grains has increased form 50.8 million tones to 176.4 million tones and then to 212 million tones in 2001-02 as a result of technological advancement. During the last fifty years of planning, the annual average growth rate of agricultural production was above 2.6%. The average yield per hectare for all food grains has recorded an increase from 5.5 quintals in 1950-51 to 17.3 quintals in 2001-02 as a result of the application of scientific methods of cultivation, HYV seeds, chemical fertilizers and expansion of irrigation facilities. As a result, the per-capital availability of food grains and pulses has increased from 395 gram per day in 1951 to 512 grams per day in 2001.

5. Industrial Development

Industrial sector of the country has attained a considerable progress during period of planning. Industries like steel, engineering goods, fertilizer, aluminum, petroleum goods recorded a significant progress. During the first three five plan period (1951-65), Indian industries experienced a steady growth rate of about 8%. After experiencing some ups and downs during the next 20 years, the same industrial growth rate become steady since 1985-86 reached at 8.6% in 1985-86 and then to 12.8 % in 1995-96.

6. Development of Infrastructure

During the last fifty years of planning, the infrastructure facility of the country has attained considerable progress, especially in respect of transport and communication, irrigation facilities and power generation capacity. Total length of railway route has increased from 53,600 k.m. in 1950-51 to 63,028 k.m. in 1996-97 result in fright carrying capacity and passengers carrying capacity has increased considerably. The installed plant capacity of power projects in India has increased from 2.3 GW in 1950-51 to 121 GW in 2001-02. Power generation has increased from 6.6 TWH in 1950-51 to 572.2TWH in 2001-02.

7. Employment Generation

During first two plans employment opportunities were generated for about 16.0 million people. During fifth and sixth plans, about 19 million and 34 million people were given employment opportunities. Again about 41.74 million employment opportunities were generated during eight plan. But with huge growth of number of working population, the backlog of unemployment which was 5.3 million in 1951-56 gradually rose to 94 million at the end of 2002.

8. Development of Social Services

During the last fifty years of planning, social services like education, health, family planning etc. has improved considerably.

Life expectancy at birth has increased from 32.1 years in 1950-51 to 60.9 years in 1997-98.

Birth rate has declined from 39.9 per minute in 1950-51 to 25.8 per minute in 2000.

The death rate has declined significantly from 27.4 per minute in 1950-51 to 8.5 per minute in 2000.

Education – the literacy rate has increased from 18.23 % in 1950-51 to 65.38% in 2001.

Health – during the plan period - total number of hospitals and dispensaries has increased around 45,000.

9. Development Of Human Resources

The planning has developed a huge education system which is considered as the third largest in the world. Accordingly, total enrolment of students at various level has increased from 239 lake in 1950-51 to 1827 lake in 1996-97, showing a seven fold increase. The country has also developed good number of universities, engineering colleges, medical colleges, technical institutions, management institutions etc., during their plan period.

Besides, considerable progress was achieved in respect of public health, drinking water facilities, rural electrification and minimum needs of the weaker sections of the society.

TYPES OF PLANNING

The main types of planning are discussed below.

1. Perspective planning
2. Annual plan
3. Overall planning
4. Sectoral planning
5. Planning by direction
6. Rolling plan and
7. Indicative planning

1. Perspective Planning

It denotes a long term planning in which long range targets are set in advance, for a period of 15 – 20 or 25 years. It is a blue print of developments to be undertaken over a long period. Eg. (Doubling per capita income in 10 years is one of the objectives of Tenth Five Year Plan). However, it does not imply, one plan for the entire period of 15 or 20 years. But its targets and objectives are to be achieved within the short period of time by dividing it into several short period plans.

2. Annual Plan

Annual plan is a short-term plan for a period of 1 year. It is a plan for speedy action. As the term is very limited, the targets fixed should be very apt and specific. In India, we have adopted annual plans whenever our country suffered economic crisis, particularly in the years 1966-67, 1967-68, 1968-69, 1990-91, 1991-92. It also helps us to concentrate on a particular economic issue and to settle it. The plan is a rigid one as the duration is very short. It is very difficult to alter the priorities and targets in the middle so as to suit the imperfections of the market forces.

3. Overall Planning

It refers to a comprehensive planning covering all the sectors of the economy. It is a plan for the whole economy without disturbing the structure of the economy. It is also called functional planning. This type of plan is implemented by inducement to remove the evils of unemployment under production or over production and inequality of income. The government provides incentives, subsidies, credits and other facilities to investors for inducing them to undertake investment activities, which lead to expansion of employment and production. Heavy tax is imposed on the rich, and inherited wealth whereas the poor are left untaxed or with a moderate tax. Evils of monopolies are controlled by tax measures and price controls.

4. Sectoral Planning

When plans are broken up into sectors, they are called sectoral plans. It is useful for the development of control over a few important sectors of the economy such as population, foreign trade, transport, agriculture etc. It has brought into focus more and more the concept of area development i.e., development plans for each of the homogeneous units in which the country is demarcated. Population planning in Argentina and Monnet plan for modernization of industries in France is examples of this kind of planning.

5. Planning by Direction

It is also called planning by command. Planning in Soviet Russia and China is complete planning by direction. Planning here is implemented by direct action and compulsion. The government issues orders to producers as to what they should produce and in what quantities, how much labour they should employ from whom they should buy their raw materials and to whom they should sell. On the side of consumers, the state would decide the type of commodities that people should consumer and in what quantities. There is no freedom of consumption, occupation and enterprise. There is no private property under this planning.

6. Rolling Plan

It is the planning of adjustment of financial allocation on the year- to- year basis for boosting the level of economic development at the local, district and state levels. It acts as a tool to vitalize the tempo of economy in the content of production, income and employment prospects. India adopted this plan for making corrections in third five year plan after the Chinese aggression in 1962. It became popular only when the Janata government followed it from 1978.

In a rolling plan, every year 3 new plans are made and acted upon. First there is a plan for current year (that includes the annual budget and foreign exchange budget). Secondly, there is a plan for a number of years, say 3, 4 or 5 years, which contains targets and techniques to be emulated. Thirdly, a perspective plan for 10, 15, 20 or even more years is presented every year in which the broader goals are stated and the outlines of future development are forecast. Countries like Japan and Poland adopted this type of plan and succeeded

7. Indicative Planning

This is also called planning by inducement. It is a type of planning, operated through the price mechanism. The desired objectives of the planners are sought to be achieved through inducement. There is no compulsion, command or enforcement through law from the authorities. The objectives to e achieved are simply indicated in the plan document and the state created favourable situations to attain them. There is freedom of consumption, occupation and enterprise. Right to private property is also recognized.

ROLE OF PLANNING COMMISSION IN INDIA

In India the first systematic attempt of economic planning was made in 1934 when M.Viswesvarya published his book 'planned economy for India". Again in 1937, Indian national congress set up the national planning committee with Pt. Jewaharlal Nehru as chairman. In the mean time 8 leading industrialists of Bombay submitted the 'Bombay plan in 1943. Again Shri M.N.Roy also released simultaneously his '10 year peoples plan'. After that the national planning committee submitted its long awaited report in 1948.

In the mean time the government of India also set up a Department of Planning an Development in 1944 and it introduced short term and long term plans for restoration of normality after war and for economic re construction and development.

But in India the real beginning of planning was made on March 1950 when the India Planning Commission was established. In July 1951, the commission submitted its draft outline of the first five year plan to be effective from 1951-52 to 1955-56.

After the formulation of planning commission in March 1950, the necessity of formulating a co-ordinating agency between the planning commission and the various states was felt. Thus to fulfill the requirements of a co-ordinating agency, the National Development Council was set up by the government of India on 6th August 1952. Thus every planning decision in India originates from the planning commission and being finally approved by the National Development Council.

The planning commission in India was set up for the first time in March 1950 with Pt. Jewaharlal Nehru as its chairman. The commission is composed of eight members.

Constituents

- Prime minister (chairman)
- Four full time members (including deputy chairman)
- Minister of planning
- Minister of finance
- Minister of defense

The NDC is composed of the following members;

- Prime minister of India
- All state chief ministers
- Members of planning commission

What are the various Role or Functions of Planning Commission?

Making real assessment of various resources and investigate into the possibilities of augmenting resources

Formulation of a plan

Defining stages of plan implementation and determining plan priorities

Identifying the factors retarding economic growth and determining conditions for its successful implementation

Determining plan machinery at each state of planning process

Making periodic assessment of the progress of achievements and recommending necessary changes in policy measures to achieve objectives and targets of plan , and

Finally making ancillary recommendations as and when necessary.

A BRIEF RESUME OF FIVE YEAR PLANS IN INDIA:

Five Year Plans In India:

Objectives of First Five Year Plan (1951-1956)

Correcting the disequilibrium in the economy caused by the second world war (1939-45) and the partition of the country in the year 1947 at the time of attaining independence.

Increasing the productivity and total production in the agricultural sector in order to solve the food crisis in India.

Combating the inflationary tendencies in the economy.

Building economic overheads, such as a network of roadways, replacement of the rolling stock in the railways, and construction or irrigation and hydro – electric work.

Initiating a pattern of economy called ‘mixed economy’ based on welfare ideals with private and public sectors functioning side by side as integral parts of a single organism.

Reducing of inequalities of income and changing the socio - economic frame work progressively by democratic methods within the ambit of the construction .

Objectives of Second Five Year Plan (1956-1961)

A sizeable increase in national income so as to raise the level of living in the county. The plan envisaged a target of 2.5 percent increase in national income.

Rapid industrialization of the country with particular emphasis on the development of basis and key industries.

- Expansion of employment opportunities, by developing labour intensive projects and small scale industries.
- Reducing of inequalities of income and even distribution of economic power.

Objectives of Third Five Year Plan (1961-1966)

- To secure during the plan period a rise in the national income of over 6 per cent per annum, the pattern of investment being designed also to sustain this rate of growth during subsequent plan period.
- To achieve self sufficiency in food front and increase agricultural production to meet the requirements of industry and exports.
- To expand basic industries like steel, fuel, power and establish machine building capacity so that the requirement of further industrialization could be met within a period of 10 years or so mainly from the country's own resources.
- To utilize to the fullest extent possible the man power resources of the country and to ensure a substantial expansion in employment opportunities and
- To bring about reduction of inequalities in income and wealth and more even distribution of economic power.

Objectives of Fourth Five Year Plan (1969-1974)

- Growth with stability and self reliance, and growth target of 6 per cent per annum upto 1980-81.
- Stability in the price level of food grains and other essential commodities.
- Sustained increase of about 5 per cent annum in agricultural production.
- Participation by rural population in development and its benefits.
- Stopping import of food grains on concessional terms under PL 480.
- Correction of regional Imbalances.
- Central role for agriculture cooperatives and consumer cooperatives in cooperative department.
- Reduction of income disparities through more rapid growth of the economy and greater diffusion of enterprise and ownership as the means of production.

Objectives of Fifth Five Year Plan (1974-1979)

- Removal of poverty by ensuring minimum facilities such as elementary education, public health , drinking water, nutritious food, good roads, electricity, etc,.
- Attaining self reliance

Objectives of Sixth Five Year Plan (1978-1983)

- Removal of unemployment an underemployment
- Appreciable rise in the standard of living of the poorest section of the population.
- Provision of basic needs of the poor people i.e., provision of drinking water, elementary education, adult literacy, health care, rural roads, housing for the landless etc.
- Reduction of disparities in income and wealth and
- Continuing progress towards self reliance.

Objectives of Seventh Five Year Plan (1985-1990)

- The pattern of public investment taken together with private investment was designed to sustain the rate of growth of five per cent per annum.
- The plan sought to reduce the number of people living below poverty lien from 37 per cent to 26 per cent.
- Employment potential was expected to grow at 4 per cent per year as compared to the expected growth rate of 2.6 per cent in the labour force.
- It aimed to give fuller employment in rural areas.
- The agricultural sector was expected to grow at an average annual rate of 4 per cent in terms of gross output and 2.5 per cent in terms of value added.
- The output of minerals and manufacturing was expected to increase at the rate of 8.3 per cent per annum over the seventh plan period.
- In the external sector, the plan aimed to increase the exports by 7 per cent annually during 1985-90. imports were expected to increase at an annual rate of 5.8 per cent.

- It assigned a significant place to the minimum needs programme to bring about an important qualitative change in the economy. These related to education, rural health and water supply, rural electrification, roads and housing and also nutrition programme.

Objectives of Eighth Five Year Plan (1992-1997)

- The plan gives top priority to the generation of employment in order to achieve near full employment by the turn of this century.
- It attempts to the reduction of population growth, or in any way arresting fast population growth.
- Complete eradication of illiteracy in the age group of 15 to 35 years through universalisation of elementary education.
- Health care for villages covering the entire population with provision of safe drinking water and also eliminating of scavenging by human beings.
- Development and diversification of agriculture to generate not only self sufficiency in food, but also for export.
- The strengthening of infrastructure (i.e., development of transport, energy, communication and irrigation) to support the economy's growth process).
- The development of other fields, largely industries, comes under the fold of private sector which has been assigned more responsibility and role in the eighth plan.
- The plan has set an average growth rate of 5.6 per cent per annum.

Objectives of Ninth Five Year Plan (1997-2002)

- The primary objective of this plan is the priority to agriculture and rural development in order to generate adequate productive employment and also eradication of poverty.
- Accelerating the growth rate of the economy with stable price and also ensuring food and nutritional security for all particularly the vulnerable section of society.
- Providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter and other infrastructural facilities.
- Containing the growth rate of population.
- Ensuring environmental sustainability of the development process through social mobilization and participation of people at all levels.
- Promoting and development of people's participatory institutions like Pahchayati Raj Institute, cooperative organizations and also self help groups in order to build self reliance, besides empowerment of women, schedule castes, scheduled tribes and other classes, as agents of socio – economic change and development.

TENTH FIVE YEAR PLAN (2002-03 TO 2006-07)

The approach paper of the tenth plan was unanimously approved by the NDC on 1st September, 2001. The planning commission, with K.C. Pant and recently Dr, Monto singh Aluvalia as vice chairman, has got an ambitious target of 8.0% growth rate in GDP during the tenth plan.

The **Tenth Five Year Plan India** (2002-2007) aims to transform the country into the fastest growing economy of the world and targets an annual economic growth of 10%. This was decided after India registered a 7% GDP growth consistently over the last decade. This GDP growth of 7% is much higher than the world's average GDP growth rate. Thus, the Planning Commission of India sought to stretch the limit and set targets which would propel India to the super league of industrially developed countries.

Targets or Objectives

- Reduction of poverty ratio by 5% points by 2007 and by 15% points by 2012.
- Providing gainful high quality employment to the addition to the labour force over the 10th plan period.
- All children in school by 2003, all children to complete 5 years of schooling by 2007.
- Reduction of gender gaps in literacy and wage rates by at least 50% by 2007.
- Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2%.
- Increase in literacy rate to 75% with the plan period.
- Reduction of infant mortality rates (IMR) to 45 per 1000 live births by 2007 and to 28 by 2012.
- Reduction of Maternal Mortality Ratio (MMR) to 22per 1000 live births by 2007 and to 11 by 2012.

- Increase in forest and tree cover to 25% by 2007 and 33% by 2012.
- All villages to have sustained access to potable drinking water within the plan period.
- Cleaning of major polluted rivers by 2007 and other notified stretches by 2012.

FOREIGN TRADE OF INDIA

During the pre-British period, India was quite famous for her foreign trade. During those days Indian merchants were exporting various types of manufactured articles especially textile handicrafts, which had worldwide reputation. But during the post-independence period, India experiences a thorough change in the composition and direction of foreign trade. At present a good number of non-traditional commodities are included in the export list of the country.

The trade is classified into internal and international trade.

Internal trade is a trade between individuals living within the same country. It is also known as domestic trade or home trade or inter-regional trade or internal trade.

On the other hand, international trade, is a trade between two or more nations, Individuals of different nations carry on the international trade for the sake of profit. It is also known foreign trade or external trade.

IMPORTANCE OF FOREIGN TRADE IN A DEVELOPING COUNTRY LIKE INDIA:

Since the introduction of planning in the country, India had to depend heavily on the imports of various types of machineries and equipments for the development of various types of industries in the country. Such import were known as developmental imports. At the stage, India had to import capita goods extensively in order to set up various industries like steel plants, locomotives, hydro-electric projects, etc. At the next stage, India had to import a huge quantity of intermediate goods and raw materials in order to utilize the productive capacity developed in the initial periods.

What are the Distinction between Internal and International Trade?

1. Mobility

The factors of production particularly labour and capital more freely and quickly between region within the country. But in international trade labour and capital do not move freely from one country to another country. This is because of the differences in languages, custom, culture, commercial laws, regulations and so on between nations.

2. Movement of Goods

In internal trade there is a free flow of goods from one region to another region whereas in international trade the movement of goods are obstructed by tariff wall and others.

3. Transport Cost

Existence of greater geographical distance and consequent transport cost is one of underlying feature of international trade. In fact, the transport cost has a considerable impact on the volume trade. But in the internal trade the distance and the transport cost are comparatively negligible.

4. Separate Market

The internal markets are generally governed by uniform characteristics. But the taste, habits and nature of the markets of any two countries are not the same.

5. Currency

In home trade there is only one system of currency and so the payments are easily made. But in international trade there are different types of currencies.

6. Rules and Regulations

Internal trade is mostly subject to one set of trade rules and regulations. The trade therefore within the country is smooth. But in international trade the traders are subject to several sets of rules and regulations. Hence, the international trade is more complicated than the internal trade.

7. Knowledge

In internal trade people have little knowledge about trade conditions in other countries. But in international trade people have wide knowledge about the trade conditions of different countries.

Advantages

- International trade helps every country to import goods, which it cannot produce or produce with greatest difficulty or at the highest cost of production.

Advantages

- International trade brings gain to trading countries. It enables every nation to market its surplus in foreign countries and enjoy profit.
- It increases the world output by encouraging every trading country to specialize and maximize its production.
- It helps trading countries to solve their economic crisis like food problem, famine, oil crisis etc.
- It also helps the undeveloped and under developed countries to develop their economy.
  It promotes peace and variety between trading countries on commercial basis.

Disadvantages

- International trade leads to lopsided development in an economy. For e.g. England has developed industries but neglected agriculture.
- It may ruin an economy in the long run due to the exhaustion of economic resources.
- It also leads to economic dependence. For e.g. England depends upon other countries for food.
- It causes political domination. As they say flag follows the trade. This is perfectly true of pre-independent India.
- It also often results in war. The World War II is because of trade competition between nations.

BALANCE OF TRADE AND BALANCE OF PAYMENT

The balance of payment position of the country reflects on its economic health. The balance of payments of any country is a comprehensive and systematic accounts of all the different transactions occurred between the residents of a country and the rest of the world during a particular period of time. The balance of payments maintains a detailed classified records of different types of receipts against exports of goods, service and all the capital received by its residents on the one hand and also of all the payments made by the residents against imports of goods and services received along with the capital transferred to non-residents and foreigners, on the other hand. Thus the balance of payments is much wider than the balance of trade which refers to only merchandise exports and imports.

The balance of payments is broadly classified into

(i) Current account and (ii) Capital account.

(i) Current account: visible exports and import; invisible items relating to receipts and payments for various services like banking, insurance, shipping, travel etc.

(ii) Capital account: The capital transaction includes both private, banking and official transaction.

Definition:

According to Prof. Kindle Berger, “the balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting and the residents of the foreign countries during a period of time”.

Components of Balance Of Payment

Current Account

It consists of;

- Merchandise export and imports
- Invisible exports and imports and
- Transfer payments.

Merchandise exports and imports are exchange of visible items between countries. Invisible transactions include travel and transportations, income and payments on foreign investment etc. gifts, foreign aid, pensions, remittances, charitable donations etc., and come under ‘transfer payments’.

Capital Account

It shows the international flow of loans and investments. It consists of transactions in financial ---- in the form of short term and long term lending and borrowings, and private and official investments. The capital account also consists of the official settlements account. The official settlement account measures the changes in a country's liabilities and reserve assets. Reserve assets include gold stock, foreign currencies and SDRs etc.

Items on credit and debit sides

S. NO	CREDIT	DEBIT
1.	All the visible exports	All the visible imports
2	All the invisible exports	All the invisible imports
3	All the transfer receipts	All the transfer payments
4	All the borrowings from abroad and investments by foreigners in the country and	All the loans to foreign countries, investment by residents in foreign countries, and debt repayment to foreign counties etc.
5	The official sale of reserve assets including gold to foreign currencies and international institutions.	Official purchase of reserve assets or gold from foreign counties and international institutions.

Balance of Trade

Balance of trade refers to the difference between the values of merchandise exports and the value of merchandise imports. It takes into account only those transactions arising out of the exports and imports of the visible items. It does not consider the exchange of invisible items or services.

Visible items are commodities which have physical shape, which can be measured and certified by the customs authorities. Balance of trade is a narrow concept.

The balance of trade may be favourable or unfavourable.

When the value of visible exports exceeds the value of visible imports, the balance of trade will be favourable.

Inversely, if the value of visible imports exceeds the value of visible exports, the balance of trade will be unfavourable.

Balance of Payment

Balance of payment is a wider concept. It take into consideration both visible items and invisible items. Invisible items are services rendered by shipping, insurance and banking, payment of interest and dividend or expenditure by tourists, gifts, charity etc. Balance of payment includes the balance of trade also.

The balance of payment may be favorable or unfavorable.

When the total exports earnings both visible an invisible exceeds the total imports payments (visible as well as invisible) balance of payment will be become favorable.

It will be unfavorable if total import payments exceed total export earnings.

What are the causes for Disequilibrium in Balance Of Payment?

The important causes producing disequilibrium in the balance of payments may be classified as.

1. Natural Causes

Several natural factors, which are beyond human control create disequilibrium in the balance of payments of a country. Important among them are climate, floods, famines earth quakes, diseases etc. Natural factors increase the import and adversely affect the balance of payment position.

2. Political Causes

The balance of payment is affected adversely by wars, ethnic problems, caste and religious conflicts, political instability, changes in political system, government policies, industrial disputes, strikes and the likes. All these lead to either underutilization or misuse of resources causing disequilibrium in balance of payment position.

3. Economic Causes

Following are the important economic factors producing a disequilibrium in the balance of payment of a country.

4. Inflation

Huge investments and welfare programmes increase the internal cost of production above the international cost. Then the exports become costlier and the foreign demand for exports decreases. The balance of payments position turns unfavourable.

5. Population Explosion

Population explosion makes domestic supply insufficient and imports in evitable. Increase in imports turn the balance of payment unfavouable.

What are the Measures to be taking to Correct Adverse or Unfavourable Balance Of Payment position of a Developing Country?

The various measures adapted to correct balance of payments disequilibrium are the following.

Measures to correct disequilibrium

Monetary measures	**trade measures**	**other measures**
Deflation	export promotion	foreign loan
Devaluation	import restrictions	incentives to foreign investment
Exchange control	import substitution	tourism development

Monetary measures

Deflation

A deflationary policy aims at reduction of prices and money incomes of the people.. Deflationary policy refers to the contraction of money supply. It reduces the domestic demand and cheaper the exports. A deflationary policy is practiced by the central bank of all country. It involves measures like;

- Increase in the bank rate
- Sale of government securities in open market.
- Raising the cash reserve ratio
- Control of the volume of bank credit etc.

All these measures increase the exports and decrease the imports would help to correct the balance of payment disequilibrium.

Devaluation

This measure is adopted when a country suffers from several fundamental disequilibrium. Devaluation refers to the official decrease in the external value of currency. A reduction in the internal value of a currency reduces imports, increase exports and help to correct the disequilibrium.

Exchange Control

Exchange control is a popular measure adopted to correct disequilibrium. It refers to the regulation of exchange rates and imposition of restrictions on the conversion of the local currency against foreign currency. Exchange control is of two types;

✯ Direct method, which involves intervention, restriction and exchange clearing agreement.

✯ Indirect method, which involves imposition of tariffs, duties and quota system. Rate of interest is also one of the indirect methods.

Trade Measures

Various trade measures adapted to correct balance of payment disequilibrium May be shown as follows.

Export Promotion Measures

To promote exports;

✯ Export duties are either reduced or abolished.
✯ Exports are subsidized and
✯ Incentives are given to the exporters.

Import Control Measures

The most usual devices to restrict imports are;

- ✯ Imposing tariffs.
- ✯ Imposing quantitative restriction on impost (quotas) and
- ✯ Prohibiting the imports altogether.

Other Measures

Besides the monetary and trade measures, a number of other measures are also to be undertaken to correct the balance of payment disequilibrium. Important among them are;

- ✯ Obtaining foreign loans.
- ✯ Providing incentives for foreign investment and inward remittance and
- ✯ Tourism development.

GENERAL AGREEMENT ON TARIFF AND TRADE (GATT)

What is GATT? / Explain the concept GATT.

The General Agreement on Tariff and Trade (GATT) was established in 1948 in Geneva to pursue the objective of free trade in order to encourage growth and development of all member countries. The principal purpose of GATT was to ensure competition in commodity trade through the removal or reduction of trade through the removal or reduction of trade barriers. The first seven rounds of negotiations conducted under GATT were aimed at stimulating international trade through reduction in tariff barriers and also by reduction in non-tariff restrictions on imports imposed by member countries. GATT did provide a useful forum for discussion and negotiations on international trade issues.

Objectives

- To follow unconditional most favored national (MFN) principles.
- To carry on trade on the principle of non-discrimination, reciprocity and transparency.
- To grant protection to domestic industry through tariff only.
- To liberalize tariff and non-tariff measures through multilateral negotiations.

The ultimate aim of establishing liberal world trading system is to raise living standards, ensure full employment through a steadily growing effective demand for real income, develop fully the resources of the world, and expand the production and exchange of goods on a global level.

Provisions or Functions of GATT

1. Most Favored Nations Clause

To ensure non-discrimination, Article 1 deals with unconditional most favored nations (MSN) clause for all import and export duties. It implies that tariff preference accorded by a country to another are extended to all other with which it has trade relations. It also forbids the contracting parties from granting any new preferences.

2. Schedules of Tariff Concessions

The most fundamental component of GATT is a negotiated balance of mutual tariff concessions among contracting parties. The contracting parties commit themselves not to raise import tariff above the negotiated rates.

3. General elimination of quantitative restrictions:

Article XI of the Agreement prohibits or restricts the use of quantitative trade restrictions to trade. GATT encourages countries to fix a ceiling on their import duties at the lowest possible level.

4. Emerging safe guard code

Article XIX of the GATT provides emergency safeguard code. Under this, a country may impose a tariff or quota to restrain imports, which cause or threaten serious injury to domestic producers.

5. Settlement of disputes

Under the existing GATT dispute settlement procedures, complaints may be brought against action that violates the rules to impede the objective so the general agreement. The GATT relies on three or five independent experts, which make findings and recommendations for adoption through third party adjudication and negotiation.

GATT Rounds

1. The first round 1947 Geneva
2. Second round 1949 France
3. Third round 1951 England
4. Fourth round 1956 Switzerland
5. Fifth round 1960-61 Geneva
6. Sixth round 1964-67 Geneva
7. Seventh round 1973-79 Geneva
8. Eight round 1986-94 Uruguay

The eight and last round of GATT was launched at Punta Del Este. Negotiations covered new subjects such as TRIPS, TRIMS, and trade in services and agriculture. The implementations issues cover almost all areas and sectors negotiated in the Uruguay Round past. Here is an illustrative set of demands.

WORLD TRADE ORGANISATIONS (WTO)

The World Trade Organization(WTO) as contained in the Final Act was established on 1st of January 1995 and India became a founder member of WTO by ratifying the WTO agreement on 30 Dec 1994. According to the Estimates prepared by the World Bank, OECD and GATT Secretariat, the overall trade impact as a consequence of Uruguay Round Package will be additional to the merchandise good by $ 745 billion by the year 2005.

As the principal international body concerned with solving trade problems between countries and providing a forum for multilateral trade negotiations, it has global status similar to that of the IMF and the World Bank. But unlike them, it is not a United Nations Agency although it has a ‘cooperative relationship’ with the United Nations.

Features

- Unlike the GATT, it is a legal entity.
- Unlike the IMF and the World Bank, it is not an agent of the United Nations.
- Unlike the IMF and the World Bank, there is no weighted voting, but all the WTO members have equal rights.
- Unlike the GATT, the agreements under the WTO are permanent and binding to the member countries.
- Unlike the GATT, the WTO dispute settlement system is based not on dilatory but automatic mechanism. It is also quicker and binding on the members. AS such, the WTO is a powerful body.
- Unlike the GATT, the WTO’s approach is rule-based and time bound.
- Unlike the GATT, the WTO’s has a wider coverage. It covers trade in goods as well as services.

Objectives

- To ensure the reduction of tariff and other barriers to trade.
- To eliminate discriminatory treatment in international trade relations.
- To facilitate higher standard of living, full employment, a growing volume of real income and effective demand, and an increase in production and trade in goods and services of the member nations.
- To make positive effect, which ensures developing countries, especially the least developed secure a level of share in the growth of international trade that reflects the needs of their economic development.
- To facilitate the optimal use of the world’s resources for sustainable development.

Functions

- To provide an integrated structure of the administration, thus, to facilitate the implementation, administration and fulfillment of the objective of the WTO Agreement and other multilateral Trade Agreements.

- To ensure the implementation of the substantive code.
- To act as a forum for the negotiations of further trade liberalizations.
- To cooperate with the IMF and World Bank and its associates for establishing a coherence in trade policy making.
- To settle trade-related disputes.

Agreements

The WTO Agreement covers the following;

- Multilateral Agreements on Trade in goods.
- General Agreement on Trade in services.
- Agreement on TRIPS - pertains to the protection of following categories of intellectual property rights.
    a. Copy right
    b. Trademark
    c. Geographical indications
    d. Industrial designs
    e. Patents
    f. Integrated circuits and
    g. Trade secrets.
- Rules and procedures regarding dispute settlement.
- Agreement on Trade in Civil Aircrafts
- Agreement on Government procurement
- International Dairy Agreement.
- Trade policy Review Mechanism.

Reference: Indian Economy- S.Sankaran
Indian Economy- Ruddar Datt & K.P.M.Sundharam

END OF FIFTH UNIT & SYLLABUS.