Directorate of Distance and Continuing Education
Manonmaniam Sundaranar University
Tirunelveli – 627012, Tamil Nadu.

M.A. ECONOMICS

(First Year)

Indian Economic Development and Policy

(SECM12)

Prepared by

Mr. M. Karuppasamy
Assistant Professor of Economics
Manonmaniam Sundaranar University
Tirunelveli – 627 012.

Subject Experts:

Dr. D. Amutha Associate Professor and Head Department of Economics S.T. Mary's College (Autonomous) Thoothukudi	**Dr. C. A. Sham Shankar** Associate Professor and Head Department of Economics ST. Hindu College Nagercoil
Dr. S. Sarasudevi Associate Professor Department of Economics Rani Anna Government College for Women Tirunelveli	**Dr. V. Raja Rajeswari** Associate Professor Department of Economics Sri KGS Arts College Srivaikundam, Thoothukudi District
Dr. M. Neeladevi Associate Professor Department of Economics V.O.C College Thoothukudi	**Dr. P. Mary Thangam** Assistant Professor Department of Economics Sarah Turker College (Autonomous) Tirunelveli
Dr. R. Rajan Babu Assistant Professor Department of Economics ST. Hindu College Nagercoil	**Dr. V. Arockia Amuthan** Assistant Professor Department of Economics Nazareth Margoschis College Pillaiyanmanai, Thoothukudi
Dr. S. Sasikumar Assistant Professor Department of Economics ST. Xavier's College (Autonomous) Palayamkottai, Tirunelveli	**Dr. G. Gnana Elpinston** Assistant Professor Department of Economics Nesamony Memorial Christian College Marthandam

Course Coordinator:

Dr. G. Monikanda Prasad
Assistant Professor of Economics
Manonmaniam Sundaranar University
Tirunelveli – 627 012

Course Material Compiled by:

Mr. M. Karuppasamy
Assistant Professor of Economics
Manonmaniam Sundaranar University
Tirunelveli – 627 012

INDIAN ECONOMIC DEVELOPMENT AND POLICY

Course Objectives:

1. To provide a macroeconomic understanding of the Indian Economy.
2. The students become aware of various challenges of the Indian Economy.

UNIT-1: GROWTH AND STRUCTURAL CHANGE

Indian economy at Independence - The policy framework: statist policy, transition to market-oriented policy, role of erstwhile Planning Commission and NITI Aayog - Two phases of growth (1950-1980 and 1980 onwards), factors underlying turnaround- Structural change in Indian economy.

UNIT-2: AGRICULTURAL AND INDUSTRIAL SECTORS

Performance of agricultural sector, factors determining agricultural growth - Factors underlying food inflation- Agricultural price policy and food security Industrial Growth - Industrial growth before and after reforms - Dualism in Indian manufacturing- Issues in performance of public sector enterprises and privatization.

UNIT-3: FISCAL DEVELOPMENTS, FINANCE AND EXTERNAL SECTOR

Expenditure trends- GST: rationale and impact- Evolution of the financial sector in post-liberalization period- External sector performance: emergence of India as major exporter in services, performance of manufacturing sector.

UNIT-4: POVERTY AND INEQUALITY

Measuring poverty in India: Selection of poverty lines- Poverty in pre and post liberalization periods- Impact of growth on poverty- PDS vs cash transfers, feasibility of universal basic income in India - Inequality in India in pre and post liberalization periods.

UNIT-5: SOCIAL ISSUES

Gender gap in India and trends in female labour force participation rates, factors determining female labour force participation- Employment: changing nature of employment in India, "jobless growth"- Labour in informal sector- India's demographic transition.

UNIT I

INTRODUCTION

1.1 Overview on Indian economic since independence:

The Indian economy has accumulated development experience spanning a little over seven decades. There are some deep changes that have taken place in India, which suggest that the economy's fundamentals are strong.

First, the current rate of savings and investment have reached levels that even ten years ago would have been dismissed as a pipedream for India. On this important dimension, India is now completely a part of the world's fast-growing economies. Since these indicators are some of the strongest correlates of growth and do not fluctuate wildly, they speak very well for India's medium-term growth prospects. It also has to be kept in mind that as the demographic dividend begins to pay off in India, with the working age-group population rising disproportionately over the next two decades, the savings rate is likely to rise further.

Second, the arrival of India's corporations in the global market place and informal indicators of the sophisticated corporate culture that many of these companies exhibit also land to the optimistic prognosis for the economy in the medium to long run. In the medium term, it is reasonable to expect that the economy will go back to the robust growth path. To begin with, there has been a revival in investment and private consumption demand.

Third, India's exports have recorded impressive growth. Further, infrastructure services, including railway transport, power, telecommunications and, more recently but to a lesser extent, civil aviation, have shown a remarkable turnaround. The favourable capital market conditions with improvement in capital flows and business sentiments, as per the RBI's business expectations survey, are also encouraging. Finally, and even though it is too early to tell if this is a trend, the manufacturing sector has been showing a buoyancy rarely seen before.

There is also a substantial pick-up in corporate earnings and profit margins. Over the last half decade or so, India has shown that it can withstand the worst economic recession to have tested the world since the 1930s. It also aptly justifies the remark, made in somewhat different context, that "The Blue Billion Rises".

There are certain critical lessons to be learnt from the seventy years of development experience. i) Macro-economic stability is an essential prerequisite for achieving the growth

needed for development. ii) Growth does not trickle down; development must address human needs directly. iii) No one policy will trigger development – a comprehensive approach is needed iv) Institutions matter, sustained development should be rooted in processes that are socially inclusive and responsive to changing circumstances.

1.2 Meaning and measurement of Economic Development:

'Development' Distinguished from 'Growth' Traditionally, economic development has been considered as synonymous with economic growth. Economic growth has been defined as "an increase in real terms of the output of goods and services that is sustained over a long period of time, measured in terms of value added." Modern View The modern economists, however, have begun to question this identity between 'economic growth' and 'economic development'; "development is not the same thing as economic growth". Suppose, by analogy, we were interested in the difference between 'growth' and 'development' in human beings.

1.2.1 Concept of Economic growth

Growth involves changes in overall aggregates such as height or weight, while development includes changes in functional capacities, physical coordination, leadership capacity, of ability to adapt to changing circumstances. Growth is an engine, not an end in itself. The end being development. The traditional concept of viewing economic development as synonymous with economic growth was based on what came to be known as the 'trickle-down strategy', which implies the effects of rising incomes and output would ultimately trickle down to the poor so that they would benefit as well as rich.

1.2.2 Concept of Economic Development

The modern economists reject the growth view and stress the need for strategies designed to meet the needs of the poor directly. Hence, economic development has come to be redefined in terms of the reduction or elimination of poverty, inequality, and unemployment within the context of a growing economy. Prof Dud Ley Seers poses the same question about the meaning of development very clearly when he writes: The questions to ask about a country's development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond any doubt this has been a period of development for the country. If growing worse, especially if all three have, it would be strange to call the result "development" even if per capita income doubled.

In view of the above considerations, economic development, now, is being defined "as the process of increasing the degree of utilisation and improving the productivity of the available resources of a country which leads to an increase of the economic welfare of the community by stimulating the growth of national income."

Economic Growth = Size of output (A Quantitative aspect)
Economic Development = Size of Output + Economic Welfare (A Qualitative aspect)

If follows from this definition that the progress of development has to be assessed by reference to two separate indicators, namely, the indices of 'production' or 'national income', and of the 'economic welfare' of the community.

1) The former covers what may be designed as the 'growth' aspect of development.

2) The economic welfare indicator, on the other hand, brings to light the pattern of allocation of resources and of the distribution of income among different groups and classes of the community; in a sense, it combines the 'equity' and the 'growth' aspects of development.

It follows to pursuit of economic development; the following five types of growth processes should be avoided:

i) **Jobless growth**- implying a growth process which does not create additional jobs or which reduces the existing job opportunities;

ii) **Ruthless growth**- implying a growth profile which aggravates inequalities in the system;

iii) **Futureless growth**- implying a growth paradigm which creates non-sustainability through environmental degradation;

iv) **Voiceless growth**- implying a growth process which does not improve the income of the deprived sections of the society; and

v) **Rootless growth,** implying a growth process which destroys the cultural roots and traditional life styles of the society.

In view of the above, the quality of life is regarded as an important index of development. It is contended that such quality is not adequately reflected in the index of per capita income

growth. Several factors are involved in the measurement of such ‘quality’; such as education and literacy rates; life expectancy; the level of nutrition, consumption of energy per head, etc. Some of these factors are ‘nonmonetary’, while others can be measured as ‘monetary’. There is a need to set up a synthetic index of these different factors to measure economic development and the quality of life. Some attempts, undoubtedly, have been made in this direction, e.g., some economists have proposed an index of “effective” economic growth, which is the product of the growth rate of real GDP and an index of inequality.

Similar attempts have been initiated by individual researchers, multinational institutions and social organisations. Very soon a synthetic index to measure both growth and equity may emerge. All the same, till such an index is formulated and in the absence of any other reliable indicator a rise in the real per capita income can be and is being employed to measure ‘growth’ and ‘development’ in the economy and hence the two concepts can be used synonymously — even a leaking canopy is best discarded only when a better alternative is in sight.

1.3 **Economic Development and Structural Change**

Econometricians have attempted to measure structural changes in economies as development proceeds. Much of the pioneering work was done by Prof. Simon Kuznets on the basis of historical data, and the analysis has been extended and refined using data, notably under the leadership of Hollis Chenery. Such studies seek to reveal how key economic parameters change as countries development.

We may note the following as important changes:

1.3.1 Constituents of GDP Change

More generally, in terms of percentage shares, saving rates increase as income grows; government revenues (and expenditure) increase, food consumption drops and non-food consumption increases, relative output of services – and, of course, also industry – increases, while agriculture falls.

1.3.2 Employment Changes

Employment changes reflect the shift in output and changes in productivity. Labour in the primary sector of the economy does not fall as rapidly as its share in output; the reverse is true for employment in industry where increase in labour productivity is more easily secured.

1.3.3 Shift in the Composition of Exports

As development proceeds and the economy increasingly gets opened to the rest of the world, exports will account for a larger proportion of incomes and there will have been a marked shift in the composition of exports, so that the value of export of manufactures rises relative to that of primary products. Imports will also have risen and earnings and payments will be roughly balanced.

1.3.4 Rate of Increase in Population

As incomes increase, the rate of increase in population may be expected to fall, as the birth rate declines along with a fall in the death rate. The population would still be increasing, but gradually the rate of growth will tend to peter out.

1.3.5 **Distribution of Income**

Income would at first become more unequally distributed and then this trend would be reversed. Equity influences development in two ways: inequalities of power and wealth result in waste and inefficient use of productive resources, and impair institutional development. Unequal power also impedes innovation and risk taking.

1.4 STRUCTURAL CHANGES IN INDIAN ECONOMY

The national income data can be employed to study important structural changes taking place in the Indian economy during the last seven decades. The process of growth of the underdeveloped economy of India began in right earnest with the launch of the First Five Year Plan in April 1, 1951. The First Plan was a modest plan. It aimed largely to restore stability to the economy. Well formulated strategy of growth was launched in the Second Five Year Plan. The subsequent Plans primarily gave primacy to this strategy, although modifications were made in response to the changing needs of the economy. The earlier plans aimed largely to build up the production capacity of the economy, and not rapid growth. The strategy affected both the rate of growth and the composition of growth. During the 1980s, the strategy, the rate and composition of growth underwent a change. A new strategy of growth came to be adopted with the onset of the 1990s. The rate of growth accelerated from 3.5 per cent during 1951-1975, to 5.5 per cent during 1975-1990, to 6.5 per cent during 1990-2005, to accelerate further to about 7 per cent during 2005-2012. The changes in strategy and the rate of growth of national income affected the structure of the economy

1.4.1 Composition of Gross Domestic Product

The composition of GDP of an economy explains the relative significance of the different producing sectors. When a country is in a state of underdevelopment, primary sector (agriculture and allied occupations) makes the largest contribution to the national income. As the country grows and gets developed, the contribution of the industrial and services sectors gradually increases. The explanation for this shift is as follows: Income elasticity of demand for agricultural products is relatively low; as a result, with rising levels of income, the demand for agricultural products relatively declines and that for industrial goods increases and, after reaching a reasonably high level of income, demand for services of different sectors in the national product get determined by the changes in the pattern of demand. On the supply side, agriculture, being mainly dependent on a fixed factor of production, namely land, faces a limit on its growth and is subject to early operation of the law of diminishing returns. Industry, specially manufacturing, on the other hand, offers large scope for use of capital and technology, which could be augmented almost without limit with human effort. The same applies to services where application of technologies seems to offer much larger scope. It would be seen that over the period, the primary sector's share has fallen by 40 per cent, while those of the secondary and tertiary sectors have increased. This trend is projected to go further in wake of liberalisation of the economy.

This may happen primarily because of the following factors:

(a) Reduced restrictions on private sector involvement in areas like software development and information services.

(b) Technological advances, and lower fixed capital requirements.

1.5 Policy Framework

The Policy Framework provides guidance for institutional policy development, including approval, implementation, publication, and review. The Framework aims to ensure the consistent, relevant and up-to-date governance documentation.

1.5.1 Transition to a market economy

Transition to a market economy is a lengthy process comprised of various spheres of economic activities. New institutional arrangements are of key importance for successful transformation. A market economy requires not only liberal regulation and private ownership,

but also adequate institutions. For this reason, transition can be executed only in a gradual manner, since institution building is a gradual process based upon new organizations, new laws, and the changing behaviour of various economic entities. The belief that a market economy can be introduced by 'shock therapy' has been wrong, and in several cases, when attempted, has caused more problems than it has solved. Only liberalization and stabilization measures can be introduced in a radical manner, and even this is not a necessity. The need for such a method depends on the scope of financial destabilization and is only possible under certain political conditions. The main argument in favour of transition was a desire to put the countries in question on the path of sustainable growth. It was assumed that the shift of property rights from state to private hands and the shift of allocation mechanism from state to free market would soon enhance saving rates and capital formation, as well as allocative efficiency. Thus it ought also to have contributed to high-quality growth.

These policies were based to a large extent. The set of policies designed along this line has been stressing the importance of liberalization, privatization, and the opening of post-socialist economies as well as the necessity of sustaining financial discipline. However, being developed for another set of conditions, initially this approach was missing crucial elements necessary for systemic overhaul, stabilization, and growth. These elements included institution building, the improvement of corporate governance of the state sector prior to privatization, and the redesign of the role of the state, instead of its urgent withdrawal from economic activities. The incorrect assumption that emerging market forces can quickly substitute the government in its role towards new institutional set-up, investment in human capital, and development of infrastructure, have caused severe contraction and growing social stress.

The need to manage the institutional aspects of transition have been recognized and addressed only in later stages. The technical assistance of the International Monetary Fund and the World Bank in dealing with these issues may have an even more important positive influence on the course of transition and growth than their financial involvement. Lending by these organizations is often called 'assistance', despite the fact that these are just commercial credits with tough accompanying terms. They are having the consequence of enforcing far reaching structural reforms and pushing towards policies that are supposed to bring durable growth.

1.5.2 The means and ends of economic policy

In economic policy it sometimes happens that intellectual over simplification assumes that, from a certain point and under certain circumstances, the things should run themselves, so there is no need to think about how to manage them. An extreme example of such thought is the supposition that 'the best policy is no policy'. But considering the distinction between ends and means, it should be obvious to all those involved in economic research, advice, and policy, that such confusion cannot be explained merely by the laziness of economists and politicians. Actually, they do work hard. The intellectual misunderstandings result from political antagonism, and the difference is more about conflicts of interests than about alternative theoretical concepts and scientific explanations.

Of course, it does happen that policy mistakes occur due to a lack of experience and proper knowledge, but more often this confusion stems from obedience to a particular group of interests, or to 'theoretical schools', that also happen to be ideological and political lobbies. This is why there are no leftist or rightist doctors or engineers, but there are leftist and rightist economists and policymakers which is also due to the confusion of the means of the policies with their ends.

1.5.3 Transition as a process of systemic redesign

The only chance for the ultimate success of transformation is to design suitable institutions, which must often be developed from the beginning

The government involvement in the process of comprehensive institution building is of vital importance. Truly, this, as much as the liberalization, is the essence of transition. In other words, without taking adequate care of institutional arrangements, solely liberalization and privatization is unable to deliver what the nations expect from their economies. Thus, if the state fails to design a proper institutional set-up, then market failures prevail and informal institutionalization takes over. Instead of a sound market, in the words of the chief economists of the World Bank and the European Bank of Reconstruction and Development, a 'bandit capitalism' does emerge.

“It is easy to identify institutional arrangements that work well: each partner does what it is supposed to do, there is good coordination, little conflict and the economy grows smoothly and rapidly. We can also recognize ill-functioning institutional arrangements: change is

inhibited by bureaucratic requirements or there is 'bandit capitalism' with pervasive corruption and deceit". (Stern and Stiglitz, 1997, p. 20)

1.5.4 Transition as an instrument of development strategy

The new institutional set-up must be founded on the basis of new organizations that did not exist, since they were not needed, under the centrally planned state economy. Transition calls not only for a new legal system, but also for learning a new type of behavior. Enterprises, banks, the civil service and state bureaucracy, even households - all of them must quickly learn how to perform under the circumstances of new reality, i.e. emerging market system to accelerate this process and cut the costs of institutional and cultural adjustment requires special training and education efforts by political and intellectual elites, and NGOs.

1.6 Planning Commission

Planning has been an integral part of India's developmental and administrative process. Over the years it has gained legitimacy in the Indian federal system. The goals, priorities and direction set by the national Planning Commission are based on anon-partisan approach, backed by expertise and reliable technical exercises, The Indian leaders were interested to base future economic progress and growth on a comprehensive long-term planning. Therefore, as early as 1946, before the transfer of power, a Planning Advisory Board was appointed, which recommended the appointment of a Planning Commission to devote full attention to the task of planned development. As a result, the Planning Commission was constituted in March, 1950 by a resolution of the Government of India. It was decided that the state has to play an important role in bringing socio-economic transformation, as required by the Directive Principles of State Policy. The Planning Commission consults the Union ministries and the state governments while formulating five-year plans, and annual plans, and oversees their implementation. In this Unit, we will highlight the organisational structure and functions of the Planning Commission and the National Development Council in India. The planning process and formulation of five-year plans will also be discussed. In the subsequent section, we will concentrate on the growth performance through Five-Year Plans, and review of the role of Planning Commission in policy formulation.

1.6.1 Role of Planning Commission

The role of the Planning Commission is directly related to the tasks assigned to the government by the Indian Constitution in its Directive Principles, especially those relating to

economic and social development. The Directive Principles of State Policy urge upon the state to secure citizens' right to adequate means of livelihood and control the inequalities in the ownership of wealth and means of production. In this context, the state is required to ensure growth in production, and its equitable distribution among the various sections of society. In this context, the Planning Commission formulates plans for the whole country and also functions as an advisory planning body at the apex level. The major functions of the Planning Commission, assigned as per the Government of India (Allocation of Business) Rules 1961, are as follows:

a) It makes an assessment of the material, capital and human resources of the country, including technical personnel, and formulation of proposals on the basis of possibilities of augmenting such resources that are found to be deficient.
b) Formulates a plan for effective and balanced utilisation of resources in the country.
c) Defines the stages in which the plan should be carried out, and proposes the allocation of resources for completion of each stage.
d) Identify the factors, which tend to retard economic development and determine the conditions, which in view of the current social and political situation should be established for the successful execution of the plan.
e) Determines the nature of machinery, that is, necessary for implementation of the Plan.
f) Appraises the progress achieved in the execution of each stage of the Plan, and recommends the adjustments of policies and measures that such appraisal may show to be necessary.
g) Makes interim or ancillary recommendations, which appear to be appropriate either for facilitating the discharge of the duties assigned to it or on a consideration of prevailing conditions, current policies, measures and development programmes or on an examination of such specific problems as may be referred to it for advice by the Central or State Governments. In addition to the above-mentioned functions, the Planning Commission has been entrusted with responsibility in the following matters.
    a. Public Cooperation in National Development;
    b. Specific programmes for area development like Hill Area Development Programme;

c. Perspective Planning;
d. Institute of Applied Manpower Research; and
e. Overall Coordination of the Pradhan Mantri Gramodaya Yojana (PMGY).

Note: The overall coordination of the PMGY shall be the responsibility of the Planning Commission. However, concerned nodal Ministry/department will be responsible for the overall management and monitoring of the sectoral programmes under PMGY

It is evident from the above description that the Planning Commission has been made responsible for almost all aspects of planning, except execution. To formulate a plan,

first of all, a set of objectives or goals is prepared that are required to achieve the target, such as, growth of national income, reduction of the percentage of unemployed persons, etc.

Secondly, time frame and the stages in which these goals are to be achieved are decided. For deciding the above-mentioned stages one has to estimate the resources. For example, do we have enough resources to literate everyone in five years? After estimating the resources, the Commission determines a strategy to make the best utilisation of limited resources. Thus, the formulation of a plan implies the setting up of priorities, time frame, and stages; estimating the resources; and deciding on a strategy, which is the major function of the Planning Commission.

After the formulation of plan, the central ministries and the state governments execute the plan through their departments. The Planning Commission keeps an eye on the progress of the plan, identifies impediments, and suggests remedial measures. It monitors and evaluates the plan. For this purpose, it makes a post-mortem of the past plan and draws lessons, which are used to build subsequent plans.

In this context, the Programme Evaluation Organisation (PEO), periodically undertakes evaluation details or quick studies of the implementation of selected development programmes to assess the impact of that programme. Thus, it assists the Planning Commission to r provide useful feedback to planners and implementing agencies which contribute in policy-making.

1.6.2 Planning commission: Organisational structure

As the Planning Commission was set up by a Resolution of the Government of India, it is not a statutory body. Thus, the plans formulated by the Planning Commission have no legal

status. Though it appears as an advisory body, in practice, it wields considerable authority. The Prime Minister of India is the ex-officio Chairman of the Planning Commission. We will now turn to a discussion of the structure of the Planning Commission.

Chairman

The Prime Minister of India has been its Chairman since the very inception of the Planning Commission. It works under the overall guidance of the National Development Council. The Chairman participates and gives direction to the Commission on all major policy issues. It is to be noted that the Prime Minister attends only the most important meetings of the Commission so as to ensure that the Commission's proposals coming up before the Cabinet are viewed objectively.

Deputy Chairman

The Deputy Chairman, full-time, looks after the day-to-day work of the Planning Commission. He/she is usually a politician of standing belonging to the ruling party at the Centre. At times, an expert in economic development is appointed as Deputy Chairman. Prof. D.R Gadgil and Dr. Montek Singh Ahluwalia are such examples. The Deputy Chairman enjoys the rank of a Cabinet Minister, although he may not necessarily be a member of the Council of Ministers. A Minister of State is given the portfolio of planning in order to facilitate accountability to the Parliament. Members All full time Members of the Commission are in the rank of Union Minister of State. There are two types of members, in addition to the Minister of State for Planning who is also an ex-officio member of the Planning Commission. The full-time members are eminent public persons, administrators, economists and technical experts. In addition, the Planning Commission has a few important Cabinet Ministers, as its members, who attend the more important meetings of the Commission. The few important meetings that cover only the most important decisions which all members, full-time and minister-members, attend are called the meetings of the full Commission. Apart from that, the Planning Commission with full-time members meets frequently and acts as a team.

The Commission has collective responsibility for all decisions, and its members work as a collective body. Each member deals individually with the technical and other aspects of his/her allotted subject(s). However, the Commission considers all those cases that require policy decisions, or where difference of opinion exists between its members. The following chart depicts the organisational structure of the Planning Commission. As on February 1,2006 there were, total 48 contributors including the Chairman, the Deputy Chairman, the Minister

of State, 13 Members (6+7), the Secretary, 4 Principal Advisers, 20 Advisers, 2 Senior Consultants, the Joint Secretary and Additional Secretary & FA, the Director (IAMR), the Joint Secretary, the Joint Adviser, and the Adviser to Deputy Chairman.

1.7 National Institution for Transforming India (NITI)

The first meeting of the Governing Council of NITI was held on 8th February 2015. The meeting endorsed the outline of a National Development Agenda and agreed to function as an organic Team India. Later in the month, the recommendations made by the Fourteenth Finance Commission (FFC) in its report submitted to the President on December 15, 2014 has been presented to Parliament; the Economic Survey 2014-15 and the Budget 2015-2016 have also been presented. In the following, we present an overview of the implications of the FFC recommendations and the Union Budget 2015-16 for the national development agenda.

1.7.1 Objectives of National Institution for Transforming India (NITI)

1. To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States.
2. To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
3. To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
4. To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
5. To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
6. To design strategic and long-term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learned through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
7. To provide advice and encourage partnerships between key stakeholders and national and international like-minded think tanks, as well as educational and policy research institutions.

8. To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
9. To offer a platform for the resolution of inter-sectoral and inter departmental issues in order to accelerate the implementation of the development agenda.
10. To maintain a state-of-the-art resource centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.
11. To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
12. To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
13. To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

1.7.2 Features of National Institution for Transforming India (NITI)

NITI is developing itself as a state-of-the-art resource centre with the necessary knowledge and skills that will enable it to act with speed, promote research and innovation, provide strategic policy vision for the government, and deal with contingent issues. It is supported by an attached office, Development Monitoring and Evaluation Organisation (DMEO), a flagship initiative, Atal Innovation Mission (AIM) and an autonomous body, National Institute of Labour Economics Research and Development (NILERD). NITI Aayog's entire gamut of activities can be divided into four main heads:

A. Policy and Programme Framework
B. Cooperative Federalism
C. Monitoring and Evaluation
D. Think Tank, and Knowledge and Innovation Hub

1.7.3 National Institution for Transforming India vs planning commission

S.No	NITI Aayog	Planning Commission
1	It serves as an advisory Think Tank.	It served as extra-constitutional body.
2	It draws membership from a wider expertise.	It had limited expertise.
3	It serves in spirit of Cooperative Federalism as states are equal partners	States participated as spectators in annual plan meetings.
4	Secretaries to be known as CEO appointed by Prime- Minister	Secretaries were appointed through usual process.
5	It focuses upon 'Bottom-Up' approach of Planning.	It followed a 'Top-Down' approach.
6	It does not possess mandate to impose policies.	Imposed policies on states and tied allocation of funds with projects it approved.
7	It does not have powers to allocate funds, which are vested in Finance Minister.	It had powers to allocate funds to ministries and state governments

Source: NITI Ayog.

1.8 Two phases of growth (1950-1980 and 1680 onwards)

The first phase was from independence to 1979-80 and the second was from 1980-81 onwards to the current time. These two phases can be identified with two different policy regimes, that may be termed, "The Indian Version of Socialism," and "Experiments with Market Reform" respectively.

1.8.1 Phase I - Indian Version of Socialism (Since India's independence to 1979-80)

Indian Version of Socialism the period of 30 years from 1950-51 to 1979-80 was the phase of socialist experimentation, in which the Indian version of socialism was developed. This phase was characterised by a conscious effort to increase the role of the state in the economy. This was perhaps a reflection of what Chakravarty (1987) calls a "profoundly interventionist economic philosophy" prevailing at the time among Nehru and other intellectuals. He states that given similar perceptions of the reasons for India's "structural backwardness", which he presents, "even a more pragmatically inclined politician than Nehru

could well have opted for the same set of arrangements for promoting economic development." There was an inherent assumption that market failure was a serious underlying problem, that the private sector could not be trusted and that the public sector would produce economic and socially superior outcomes. The expansion of the State's role took place through multiple channels including nationalisation of selected production activities, increased public investment in infrastructure and other production activities, and legislative measures to control and direct private activity and economic agents. Though the mix of measures used varied over the phase, the concept of modern regulation as against bureaucratic control was sorely missing throughout the first phase of economic growth.

During this 30-year period of 'socialism with an Indian face' we can discern some change in emphasis between two sub-phases. Till about 1964-65 the leadership was infused with moral righteousness and developmental enthusiasm based on the philosophical background of Fabian socialism and the experience of Soviet state socialism. The best and brightest development economists in the world journeyed to India to advise on how to accelerate development and growth and some of them even worked in the Indian government or the Planning Commission to convert ideas into practical policy. Starting from 1965-66 and ending in 1979-80, both the moral fervour and the academic certainties gradually seeped away. The policies were driven more by immediate crisis and political expediency than by economic logic. A less secure leadership struggling to establish itself was much more inclined to use economic policy as a political tool for besting its rivals.

As Dhar (1990) points out, this period saw "incoherence in the policies of the government." Socialistic legislation was presented as a policy for improving the lot of the poor while its main outcome was the suppression of market responses through quantitative controls implemented by an increasingly self-serving politico-bureaucratic system. Bhagwati (1993) analysed the failure of strategies adopted for Indian development prior to the nineties' reforms. He argued that the extensive controls and the inward-looking policies, which hobbled private sector efficiency, along with the substantial and inefficient public sector were the three broad factors that stifled Indian growth in the seventies and, to a lesser extent, in the eighties. He states that "the weak growth performance reflects, not a disappointing savings performance, but rather a disappointing productivity performance."

1.8.2 Phase II: Experiments in Market Reform (1980-81 onwards)

This was the phase of market experimentation. The second phase of economic growth started at the beginning of the eighties. The high growth rates during 1994-95 to 1996-97 led to widespread speculation and assertion that India had entered a new phase of growth and development with enactment of radical new economic policy framework in 1991-92.23 We have earlier shown that there was no break-point in 1991 or 1992 and therefore the phase that started in 1980-81 continues till today. The 1994-1996 period is however found to be a growth spurt that could not be sustained.

The Market reform phase has been characterised by recognition of the harmful effects of industrial and other controls on distribution, production, and investment and the need to remove the distortions created by government policy on the industry and exports. There was much more gradual and hesitating recognition of the problem of government and public sector failure.

1.8.3 Factors underlying turnaround

From 1950 to 1980, Indian real gross domestic product (GDP) grew at an annual average rate of 3.6 per cent (1.5 per cent in per capita terms). From 1990 to 2007 the growth rate averaged 6.4 per cent (4.1 per cent in per capita terms). The shift to a higher growth path during the course of the 1980s is referred to as the Indian growth turnaround. Fast growth in India since the early 1980s has placed it amongst the top nine rapidly growing economies in the world. The aggregate real GDP growth from 1950 to 2008 against the estimated probability of being in a high growth regime using Hamilton's (1994) Markov Switching Model.

The model estimates two distinct regimes:

The first sub period from 1950 to 1981 over which the estimated average real GDP growth rate is 3.7 per cent; and The second regime during which the estimated average growth rate is 6 per cent.

The model suggests that there was a relatively short transition period in the early 1980s, with an estimated 100 per cent probability of being in the high growth regime by the mid-1980s. More recently, between 2003–4 and 2007–8, real GDP growth increased further, averaging 8.8 per cent.4 The identification of a turnaround in the early 1980s by the Hamilton model is consistent with a range of studies using aggregate data (Rodrik and Subramanian 2005; Balakrishnan and Parameswaran 2007).

We discuss the contrast between these two attempts to time the turnaround in more detail later; but the key issue on which all studies agree is that, at some point during the 1980s, there was an increase in growth, which, from the 1990s, was not only of statistical but also of massive economic significance. What has puzzled many contributors to the literature is that analysis of aggregate data suggests a pickup in growth during the early 1980s, before most of the major policy changes.

The low growth in the first phase is pejoratively referred to as the Hindu rate of growth, a period in which import duties were among the highest in the world, foreign direct investment (FDI) was prohibited in many sectors of the economy, and there was extensive regulation of interest rates. During this period Indian GDP per capita growth was, at best, in line with the long-run average growth rates in richest countries: there was minimal, if any, tendency to converge. While this performance was better than many African countries, it was clearly in marked contrast to the extremely rapid rates of convergence of the East Asian Tigers during this period.

The upward shift in India's growth path during the 1980s is significant for two reasons: the turnaround happened well before the BOP crisis of 1991 and the largescale macroeconomic reforms that ensued. The second puzzling aspect about India's growth turnaround is that it was not driven by manufactured exports and, therefore, has little in common with the East Asian economic miracle. In particular, there was no industrial policy targeted towards developing specific industries. It was the service sector that led the increase in the overall growth rate in the early 1980s. Since many components of services are income related (such as financial services, business services, and hotels and restaurants) and begin to increase only after a certain stage in development, the fact that India's service sector created the impulse for the growth turnaround is puzzling.

While there is a reasonable degree of consensus amongst economists on the timing of India's growth turnaround, there is less agreement about its causes. What is indisputable is that something happened during the 1980s that opened the door to a rise in growth. The challenge facing growth economists is to weave a logically consistent story on the timing and causes of India's growth turnaround.

Indira Gandhi, substantially chastened by her 1977 electoral defeat, became significantly more 'pro-business' after coming back to power in 1980. This 'attitudinal shift' led to more investment which increased manufacturing output dramatically. This led to a

growth pickup in 1980. In their view, aggregate productivity measured by TFP growth is driven by an attitudinal shift towards pro-business policies. This contrasts with the role that directly observable policies, such as trade liberalization, would have on a growth shift.

A possible reconciliation of the TFP versus policy debate is that while a few key trade reforms were legislatively enacted in the mid-1980s, they started to get debated in the early 1980s. Because investment is forward looking, the anticipated effects of policy changes led to India's growth turnaround prior to the enactment of the reforms. For instance, the removal of capacity constraints would allow firms to produce at higher or full capacity with the same inputs, leading to an increase in the rate of growth of productivity. The need for future research is to understand more clearly the disaggregated mechanisms that induced the Indian growth turnaround.

1.9 Structural change in Indian Economy

In India, after independence, the very first report on National Income estimates was published in 1951. The report was prepared by a committee of national income (NI) under the Chairmanship of Prof. P.C. Mahalanobis with Prof. D.R. Gadgil and Dr. V.K.R.V. Rao as its two members. The estimated total national income for the year 1948-49 was placed at Rs. 8,830 crores. Subsequent to this, estimates of National incomes (NI) have been compiled and published annually. It is important to note that the NI estimates are first compiled in 'current prices' but when temporal comparisons need to be made, it is necessary to convert them to a 'constant base'. Such a conversion procedure is required to eliminate the effect of change in price levels during the period of comparison. The estimates of NI are nowadays presented both in current and constant price series in the annual publication called the National Accounts Statistics. The base year used for presenting the NI estimates under the constant price series is frequently updated i.e. shifted to a base year of a later year so as to be in tune with the recent changes in composition of production basket and prices. Growth rate in NI calculated to a constant base makes an assessment of the performance of the economy both possible and realistic.

1.9.1 The Period of 1951-1980

It has been a practice under the planned development programmes followed in India to set a target of achievement and then assess the actual achievement against the target set. The results on this score are presented in below the table. During the three -decade period of 1951 to 1979, only in two plan periods (viz. in the first and the fifth plan periods) we could meet the

target set. This period can therefore be described as one in which India achieved a modest growth rate.

Two main reasons for the lack of achievement against the target set are:

i) The three wars with neighboring countries fought in the years 1962, 1965 and 1971; and

ii) the three **major** droughts during the years 1966, 1972 and 1979. Of these three, the first two affected an estimated 50 million populations while the third affected an estimated 200 million. Such catastrophic events which have caused a major dent in the economic performance of the country have rendered the long term average growth in India's NI to hover around 3.5 percent which has been described as the first stage rate of growth in some economic literature.

iii) In the light of this, breaking this barrier to touch the 5 percent annual growth rate in the fifth plan period is indeed a milestone in India's economic performance which is despite the fact that the year 1979-80 registered a negative growth. In fact, in addition to the three years identified as major droughts, the years of 1969 and 1970 are also recorded as drought years with an estimated 15+ million persons affected in each.

1.9.2 The Period of 1980s Onwards

In the decade of 1980s, India witnessed acceleration of national income growth as compared to the low growth rate during the 1960s and 1970s. During both the sixth and the seventh plan periods of 1980s, as also in the subsequent Eighth plan period, the growth rates in NI achieved was higher than the targeted growth rates. However, during the successive three plan periods viz. Ninth, Tenth and Eleventh plan periods, there was once again a decline in the growth rates of NI registered with reference to the targeted growth rates. Two major reasons are identified for this performance decline viz.

I. A global slow down following the East Asian crisis of 1997; and

II. Poor monsoon and the lack of thrust in the pace of reforms initiated. However, while it is not absolutely clear how far the integration of Indian economy with the global world was responsible for India's slowdown (since India had opened up its economy only in 1991 and was following a policy of moderated opening up), one cannot ignore pointing out the domestic factors contributing to policy instability. In so far as a stable

government is necessary to provide the right policy signals required for a favourable investment climate, the years of late 1990s witnessed a succession of coalition governments many remaining in power for short drifts of no more than a few months. It is only towards the end of 1999, that a somewhat stable government came to power and during its tenure (1999-2004) succeeded in instilling a renewed rigour to continued reforms.

Data from 2011-12 onwards are available from the new series with base year 2011-12. Taking the Twelfth Plan figures also into account, the average long term growth rates in India's NI, split into three major phases, is notable as follows: Phase I, 1951-1979, 4 percent; Phase II, 1980-1997, 6 percent; and 1997-2017, 7 percent. This has rendered India to be regarded as one of the fastest growing emerging market economies of the world although this trend was in evidence even by the end of 1990s.

1.10 Sectoral Growth and Change

Simon Kuznets (1966) first demonstrated that the real effects of growth are evidenced by changes in sectoral compositions i.e. over the agriculture, industry and the services sectors for reasons of both demand and supply. Fisher (1939) and Clerk (1940) had advanced the same line of thought. The changing inter-sectoral profile of NI/GDP for India is presented in the Table. Important trends that flow from the data are as follows.

Table: Inter-Sectoral Composition of GDP (%)

Year	Agriculture	Industry	Services
1950-51	53.1	16.6	30.3
1960-61	48.7	20.5	30.8
1970-71	42.3	24.0	33.8
1980-81	36.1	25.9	38.0
1990-91	29.6	27.7	42.7
2000-01	22.3	27.3	50.4
2010-11	14.5	27.8	57.7
2011-12	13.9	27.0	59.0

Source: Economic Survey (base 2004-05)

1.10.1 Share of Agriculture in GDP:

The share of agriculture in GDP has declined from 53 percent in 1950-51 to only 14 percent in 2012. The net decline over the 60+ year time period is thus to a tune of 39 percent. The declining share of agricultural sector is consistent with the development trajectory of a growing economy. However, in view of the continued dominance of relatively high employment share in agriculture and allied activities (48.9 percent in 2011-12), agricultural

growth by itself continues to remain vital for jobs, income and food security. Moreover, for all agro-food industries, agricultural sector remains the main source of raw material supply.

1.10.2 Share of Industry in GDP:

The share of industry in GDP has increased from 17 percent in 1950-51 to 27 percent in 2012. The increased share of industry is thus only by 10 percent over the 60+ year period. This means that the gain by industry, on account of the decline in agricultural share in NI, is less than one-third (since $10 \times 3 = 30$ which is much less than the total agricultural sector's decline i.e. 39 percent).

1.10.3 Pre-eminence of Services Sector:

The most striking feature of the structural change in the Indian economy over the six-decade period has been the pre- eminence of services sector (from 30 percent of its share in GDP in 1951 to 59 percent in 2012). This pace of expansion is mainly due to the growth of services sector constituents like communications, banking and insurance. The factors responsible for the rapid growth of the services sector are further identified as: (i) with the economic growth and industrial development, demand for services like transport, communication, electricity, storage, finance, etc. has increased tremendously leading to the expansion of the services or the tertiary sector; (ii) rapid development of Information Technology services has proved tobe a great source of expansion for the communications sector; (iii) defence, civil administration, economic and social services like health and education have also made a huge contribution for the growth of service sector; and (iv) due to increase in the disposable income of the large middle class section, demand for services like hotels and restaurants, tourism and transport, communication, etc. has increased

Thus, manufacturing which has been observed historically to be the main contributor of growth, at least in the initial period of economic development, has played only a minor role in India. The share of industries in GDP has remained stagnant at around 27 percent (in 2004-05 prices) since 1991. In other words, unlike other developed countries, India has become a post-industrial 'service economy', bypassing industrial development. Two reasons indicated for such a trend are: (i) development of communication technologies which has generated demand for skilled jobs causing the movement of people across countries; and (ii) demonstration effect by developed countries leading to change in demand pattern for services in India.

Table : Sectoral Share (%) of GDP: 2013-19 (base 2011-12)

Year	Agriculture	Industry	Services
2013-14	20.7	28.3	51.1
2016-17	18.2	28.4	53.3
2018-19	16.1	29.6	54.3

Source: Economic Survey: 2019-20, Vol. 2, Table 1.3 B, A7, p-33

1.10.4 Savings

Generation of employment depends on investment – both public and private. For this savings is important. The Ministry of Statistics and Programme Implementation (MSPI), through its Central Statistics Office (CSO), publishes data on savings by three principal sectors of the economy viz. household sector, private corporate sector and public sector. Trends in savings over the recent years, indicate a steady decline in 'gross domestic savings'.

Table: Domestic savings as percentage of GDP (2011-12 Series)

Sector	2011-12	2014-15	2017-18
Household	23.6	19.6	17.2
Private Corporate	9.5	11.7	11.6
Public Sector	1.5	1.0	1.7
Total	**34.6**	**32.2**	**30.5**

Source: Economic Survey 2019-20, Vol. 2, Statistical Appendix, A 26, Table 1.9, p-30.

1.10.5 Investment

There are three institutional sectors that save and invest. These are: households, private corporate sector and public sector. The public sector consists of the government and the public corporations. The combined rate of investment (i.e. investment to GDP ratio) was an average 24.5 percent over the period 1991-2004. This touched 30 percent in 2004-05 and over the next eight years i.e. 2005-2013, it averaged 35.4 percent. The difference between the domestic savings and the total investment is bridged from other sources like FDI, foreign remittances, etc. Since the trend in domestic savings is one of decline and that in investment is increasing,

it follows that in more recent years the inflow of capital from outside is on the increase. Between the three constituents of domestic savings, there has been a steady decline in the public sector savings. For instance, the share of public sector savings was around 4- 5 percent in the early 1980s but it had dropped to just above 1 percent in 2015. The bulk of the savings and investment has therefore been from the household and the private corporate sectors in which the foreign remittances and the FDI part has come to occupy an important place. Leaving aside this part, between the three constituents, with some variations over the years, the household sector accounts for about 45 percent and the corporate sector around 35 percent. The balance of 20 percent is from the government/public sector.

1.10.6 Employment

As stated in the beginning, structural change refers to a major shift in the relative shares of employment and income, transferring the benefits of growth to the people in the lower rungs of society. It also refers to occupational shift from agriculture to industry. Such a shift would result over long term time horizons for which we should ideally take the longest available time series. Notwithstanding this, for the purpose of current section, it is illustrative to first take a look at the post-1991 employment scenario and then contrast it with that in the period before (i.e. 1951-2000). This would not only give us the post-reform scenario but also aggregate for the various efforts made in the pre-liberalisation decades stretching over the nearly eight plan periods.

Table: Share of major sectors in total employment (percent)

Sector	1999-2000	2004-05	2011-12	Shift (2000-12)	2018-19
Agriculture & allied	59.9	58.5	48.9	- 11	43.2
Industry	16.4	18.2	24.3	+ 8	24.9
Services	23.7	23.3	26.9	+ 3	31.9

Source: Rangarajan, et. al. 2014

Table: Composition of Rural Employment (percent)

Sector	**1993-94**	**1999-2000**	**2004-05**	**2009-10**	**Shift (1994-2010)**
Agriculture & allied	78.4	76.2	72.6	67.9	- 10.5
Non-agriculture	21.6	23.8	27.4	32.1	+ 10.5

Source: Papola & Sahu, 2012

The changing composition of agricultural employment in general and that of rural non-farm employment in particular, shows a significant 11 percent shift over the years 2000-2012. The distribution of this shift between the industrial and services sector is 8 percent and 3 percent respectively. This shows that contrary to the expectation, the absorption of labour by the industry has been higher than in the services sector in the post-2000 years. Note that we are taking here an all India picture (i.e. a mixture of skilled and unskilled workforce) whereas were we to take a look at the specific picture of 'educated workforce only' the picture could have been different. Given that in 1951, out of a total of 143 million workers, 100 million were engaged in agriculture, and therefore the percentage of people employed in agriculture was close to 70 percent, over the 5-decade period of 1951-2000, it is significant to note that the percentage of workers engaged in agriculture had decreased by a mere 10 percent over this fifty years' period. Thus, the 11 percent decline in this respect, during the 12 post-2000 years supports the conclusion that there has been a strident pace picked up in the extent of this structural shift in the non-agricultural sector in the post-2000 years. Likewise, the corresponding shift towards non-farm employment in rural areas has also evidenced a similar shift of 10.5 percent decline over 1993-2010.

Notwithstanding these differences, taken together, the structural change in the shift of workforce over the combined period of 1951-2012, from 70 percent to 49 percent (i.e. a 21 percent decline) is significant. The share of workforce in agriculture has further declined to around 43 percent in 2019. The percentage decline in the agricultural workforce during the post-2000 years is close to 17 (- 16.7 percent)

1.10.7 **Urbanisation**

In the introduction, we made a reference to the expected change in the rural to urban share of the economy by the process of accelerated urbanisation expected to result over time. As a result of the transformation over the decades, the distribution of rural to urban population has changed by 13 percentage points over the five-decade period of 1961-2011. The percentage of rural population has decreased from 82 to 69 percent i.e. by 13 percentage points. The increase of 13 percentage points in the corresponding urban population is distributed between the pre-reforms (1961-1991) and the post-reforms (1991-2011) periods by 7.5 and 5.7 percentage points. The ratio of 7.5: 5.7 indicates a per-decade-average of 2.5 for the three pre-reform decades of 1961-91 and 2.85 for the two post-reform decades of 1991-2011. This suggests that the pace of urbanisation has been faster in the post-reform years. In other words,

the pace of reforms has accelerated during the post-liberalisation period supporting the hypothesis that structural transformation of the economy will become more fast-tracked once the process establishes itself in the economy.

Check Your Progress

Q. No.	Short Question	CO	PO	Level
1	Briefly describe the main features of the Indian economy at the time of Independence.	CO1	PO1	K1
2	What is meant by a statist policy framework in the context of Indian economic planning?	CO1	PO2	K2
3	State any two reasons for the transition from a statist policy to a market-oriented policy in India.	CO2	PO2	K2
4	Mention any two objectives of the erstwhile Planning Commission.	CO2	PO1	K1
5	Define structural change in the Indian economy.	CO3	PO3	K2

Q. No.	Essay Type Question	CO	PO	Level
1	Examine the nature and structural features of the Indian economy at the time of Independence.	CO1	PO1	K4
2	Analyse the policy framework of India by explaining the statist policy and the transition towards a market-oriented policy.	CO2	PO2	K4
3	Discuss the role and significance of the erstwhile Planning Commission in India’s economic development. (OR) Explain the objectives and functions of NITI Aayog in the contemporary Indian economy.	CO2	PO2	K3
4	Compare the two phases of economic growth in India: 1950–1980 and 1980 onwards, highlighting the factors underlying the turnaround.	CO3	PO3	K4
5	Assess the nature and extent of structural change in the Indian economy since Independence.	CO3	PO4	K5

UNIT II

Agriculture - Industry sectors

2.1 Introduction

During the process of economic development over the last five and a half decades, interdependence between agriculture and industry has become stronger. Over the period, three important linkages as follows have developed between the agricultural sector and the industrial sector:

1. **Production linkages:**

These arise from the interdependence of agriculture and industry for productive inputs, i.e., supply of agricultural products such as cotton, jute, sugarcane, etc. to agro-based industries and supply of fertilizer, machinery and electricity by industry to agriculture. Over the last five and a half decades, these linkages have got further strengthened with agriculture's dependence on industry increasing at a faster rate than the dependence of industry on agriculture, reflecting the fast-moving modernization of the agricultural sector.

2. **Demand linkages**:

There are strong demand linkages between the two sectors. The impact of urban income and industrialization on the demand for food and agricultural raw materials is generally recognized. Equally significant is the impact of the rural income on industrial consumption goods, i.e, clothing, footwear, sugar, edible oils, etc.

3. **Savings and investment linkages:**

The relative terms of trade between the two sectors not only influence the level of private saving and investment, but these also manifest themselves into government saving and investment.

There is no doubt that strong linkages have developed between the agricultural and the industrial sector during the last five and a-half decades. But, it could be commonly observed by all of us that these linkages have been weakening.

In the literature on economic development, the idea of agriculture acting as a constraint on overall growth in a labour surplus developing economy is familiar enough. The genesis of the idea can be traced to the seminal paper by Arthur Lewis: Economic Development with

Unlimited Supplies of labour. The bottom line of Lewis' contention was that, although there is ‘surplus labour’ in such economies, inadequate availability of wage goods limits the level of employment and output in the industrial sector.

While this conventional frame of analysis was quite relevant to the Indian economy at the inception of economic plans, the degree of its relevance for the Indian economy at this stage when we are at the threshold of the Eleventh Five-year Plan, is considerably reduced.

The following reasons, among others, account for it.

One, the relative share of agriculture in the total national income has declined from over 50 per cent in the 1950 to 14 per cent presently. Thus, the degree of drag or push that the agricultural sector can exert on overall growth of the economy has been drastically reduced.

Two, the second aspect is a by- product, as it were of the first. The secular growth rate of the agricultural sector during the last five and a half decades works out to some 2.0 per cent. The decline in the relative share of agriculture in the GNP, despite this sustained growth, indicates clearly that the secular growth in the secondary and tertiary sector has been more rapid. These structural changes in the sectoral composition of national income provide, in large part, explanation for the fact that even in the worst crop year 2002-03, when the index of agricultural production declined by 13.8 per cent, the GDP recorded an increase of 4.0 per cent. Or even in 2004-05 when the index of agricultural production has been estimated to have declined by 0.5 per cent the GDP is estimated to have increased by 6.9 per cent.

Three, the wage goods constraint on the overall growth of the economy no longer remains valid for two reasons:

The Indian economy overcame food shortages long ago; India has emerged as a food-surplus and even a food-exporting nation and

There has been a decline in the employment elasticity of output of non-agricultural sectors, which means that the increased output in industry and services does not involve a commensurate increase in the demand for wage goods. In fact, the massive food grains stocks with the public sector, much beyond the buffer stock requirements, and even much beyond the public sector agencies' capacity to store and hold them are a concrete evidence of the break through from this constraint.

Four, with the spread of modern farm technology, use of non-traditional inputs into agricultural production have assumed greater importance.

Five, the traditional agro-based industries have been relatively stagnant. Their share in overall industrial output has been falling. The boom sectors of the 21st century chemicals, consumer durable and hi-tech services have very little linkages to agriculture.

Lastly, the overwhelming preponderance of agriculture-based items in India's export like tea, cotton and jute textiles had been reduced and presently non-traditional exports have emerged as important components. Industrial growth is, thus, insulated from the domestic factors to the extent to which non-traditional exports influence domestic industrial production.

However, before our readers reach any other conclusion we need repeat, as already stressed many a time earlier in the course, the agricultural sector is an important sector of the economy. No meaningful fight against poverty and unemployment can gain even an iota of success which does not have agricultural growth at the centre of its strategy. However, what is being stressed is the need to shift our exclusive focus from the farm sector to other related non-farm activities in the sector. This constitutes, as you have already studied in the preceding unit, what is called diversification of agriculture.

2.2 Performance of Agricultural sector:

The importance of agriculture sector in the Indian context can be understood from the fact that it continues to be the key for poverty alleviation, employment generation and an important source of foreign exchange earnings. Being the main source of employment and livelihood for close to 50 percent of the Indian labour force, agriculture continues to be the backbone of Indian economy. Although the contribution of agricultural sector to total GDP of India is declining over time, it continues to occupy its important place in the economy because of its linkage with the economic activities in the secondary and tertiary sectors of the economy. It also plays an important role in the determination of growth rate of economy as it affects the overall aggregate demand. There is a close linkage between aggregate demand and aggregate output i.e. if agriculture generates more income for rural population, their demand will go up for the products of other sectors and thus contribute to the total demand in the economy going up. There is thus an interdependency between the agriculture, industry and the services sectors, which will ultimately determine the overall GDP growth rate. The importance of agriculture in India can also be gauged from the fact that as per the Census report of 2011, around 68 percent of total population live in rural areas and agriculture is the main source of livelihood for most

of them (i.e. for about 62 percent of rural population as per Agricultural Census, 2011). However, the agricultural sector continues to be plagued by innumerable number of problems hampering its growth potential from being realised. This has in turn kept the potentials of the industry and services sectors also stifled from being realised.

2.3 Agricultural sector in India

There has been a consistent decline in the share of agricultural sector's GDP of India from the 53 percent in 1951 to about 14 percent in 2014. As a consequence, the share of industries and services sectors has increased from 17 percent to 26 percent and from 30 percent to 60 percent (over the period of 1951 to 2014) respectively.

The main reasons behind the decline in the share of agricultural sector in total GDP are:

(i)traditional means of cultivation, (ii) dependence on monsoon, (iii) small land holdings, (iv) low productivity, (v) reduced subsidy in the post-reform years of 1990s, (vi) low skill levels of farmers, (vii) inadequate investment in infrastructure necessary for better performance of agricultural sector, (viii) price volatility, etc.

Another means of looking at the relative performance of the three different sectors is to consider the growth rates in GDP measured at constant prices. Figures in this respect shows that over the period 1951-2011, the primary sector grew at an annual average of 2.8 percent while the secondary and the tertiary sectors have both grown at an annual average of 6 percent. Thus, the decline in the share of agricultural sector to GDP is not only due to the slow growth of agricultural sector itself but also due to the relative faster growth of secondary and tertiary sectors. Although there has been a decline in the share of agriculture to total GDP of India, the production of food has increased by close to 6 times over the period 1951-2018. Specifically, it increased from 51 million tonnes (MT) in 1951 to about 285 MT in 2017-18 (Table 5.1). Production of milk has increased by more than 10 times (from 17 MT to 176 MT) over 1951-2018 and of fish by more than 10 times (from 0.8 MT to 8 MT) over the period 1951-2012. Production of eggs has also increased steeply from about 2 billion in 1951 to 95 billion in 2018. Due to these developments, India has transformed itself from a food importing country to a food self-sufficient country in spite of a huge increase in its population (more than 3 times over the period 1951-2018).

The credit for attaining self-sufficiency in food production goes to different phases of the Green revolution in India which started in the mid-1960s. By the early 1970s, India had

achieved a huge jump in the production of wheat and rice due to the adoption of High Yielding Variety (HYV) seeds and shift to scientific cultivation from traditional cultivation. The 'operation flood' (production of milk) and Blue Revolution (production of fish) have also contributed in attaining self-sufficiency in production of food in India.

2.3.1 Post-Reform period

High fiscal deficit was one of the factors which forced the Indian government to forgo the inward looking policies of import substitution and adopt an outward looking policy of export promotion for economic advancement. Reduction in fiscal deficit was one of the conditions imposed by the IMF (International Monetary Fund) while extending the bailout package in the early 1990s.

There are mainly three ways through which any government can reduce its fiscal deficit. These are:

(a) increase in tax revenue by either levying higher taxes or by bringing more people into the tax net,

(b) reduce government expenditure and

(c) reduce transfer payment like subsidies.

Out of these three measures, the government relied more on squeezing transfer payment by reducing subsidy to agriculture sector as the first two measures were feared to hamper economic growth by reducing the aggregate demand in the economy. There was adverse impact of reduction in subsidy to agriculture since it resulted in increase in cost of production of food grains on the one hand, and a proportionate increase in the prices of food and non-food items on the other, in the post reform period. In other words, on the one hand there was increase in cost of production, while on the other, the return on agricultural produce became uncertain due to volatility in international price of agricultural products after the globalisation of Indian economy. Thus, the already uncertain situation in the Indian agriculture sector due to its dependence on monsoon was compounded by its exposure to the forces of international price pressures, raising the level of uncertainty faced by the sector further more.

As a result, the growth of agricultural sector witnessed steep decline in the post reform period. The Eleventh Plan (2007-12) reported that the growth of agricultural sector declined from an average of 3.5 percent per year during 1982-97 to 2 percent for the period 1998-2005.

This decline was in almost all the states and its effect spilled over to include the allied sectors like fisheries, horticulture and livestock. Although, growth rate of agriculture sector in India between 2004-05 to 2010-11 was 3.5 percent, it was much below the targeted growth rate of 4 percent in most of the five year plans (i.e. 9th, 10th and 11th) in the post-reform period. The growth rate of agriculture in more recent years is estimated at just about 1.1 percent in 2015-16 mainly because of two consecutive droughts in the years 2014 and 2015 but also because of other problems (i.e. volatility of prices and reduction of subsidy and public expenditure).

2.3.2 Traditional cultivation to Modern cultivation:

In mid-1960s, the Government of India realised that she should attain self-sufficiency in food production because of its geo-political compulsion. During this time, India devoted lot of resources in fighting a war with China (in 1962), Pakistan (in 1965) and faced two consecutive droughts (in 1965 and 1966). Apart from these, USA threatened India to stop its wheat export because of India's stand on the Vietnam War which was against the USA. PL480 was an agreement between India and USA under which India was receiving wheat from USA at subsidised rate in the form of food aid. All these events compelled India to resolve for avoiding a situation of food crisis as a matter of extreme priority. The government took the decision to import the HYV (High Yielding Variety) seeds from Mexico which had been developed by the Mexican scientist Norman Borlog. It was modified to suit the climatic conditions of India. As a result of this initiative, India attained self-sufficiency in production of wheat in the first phase of its implementation (1966-72) which has since come to be recognised as a period of 'Green Revolution' in India. In the successive phases of its implementation, India also attained self-sufficiency in the production of Rice (the second phase, 1973-80) and in Milk, Fish, Eggs, etc. (the third phase, 1981-90).

2.3.3 Impact of Green Revolution

Although India attained the much needed goal of producing enough food grains for its population, it also resulted in the widening of income inequalities, particularly in rural inequality, causing regional imbalances in India. Big landlords and farmers benefited a lot from the Green Revolution by virtue of their large land ownership which was required for the capital intensive cultivation of the HYV seeds. While this yielded high income for them, small famers and landless labourers in rural areas did not benefit in any way which caused steep income inequality in the rural areas of some states. The Green Revolution in India was mainly concentrated in the states of Punjab, Haryana, western UP and some parts of Tamil Nadu.

Therefore, all these regions benefited much from the Green revolution while the rest of India remained untouched and hence caused regional imbalances in growth and income. In sum, therefore, the impact of green revolution on India can be stated to have resulted in the attainment of: (i) self-sufficiency in production of food; (ii) shift from traditional means of cultivation to scientific cultivation; (iii) increase in productivity of crops; and (iv) increase in income of farmers; but at the cost of increase in income inequality and regional imbalances.

2.3.4 Problems of Indian Agriculture

The foregoing sections reveal that even though we achieved self-sufficiency in food grains, and have now become food exporters, it is a fact that in terms of productivity levels we have much lagged behind. This is mainly because the Indian agriculture has continued to suffer from certain problems. These are as follows.

a) **Irrigation:** Indian agriculture is still dependent on monsoon because of inadequate availability of irrigation facilities like tube wells, canals, etc. which are very much required for controlled irrigation of crops. In the absence of such facilities, there have been loss of crops either because of floods or drought. There is no arrangement which channelise excess water from one area to the other which is water deficit and hence it ultimately results in the loss of agricultural produce at local and national level.

b) **Inadequate Investment:** Investment by government and corporate sector in Indian agriculture is very low due to which there is inadequate infrastructure much required for better performance of the sector. In the absence of adequate storage and cold storage facilities, there have been much loss of harvested crops. If harvested crops are not properly stored, it would be eaten by pests or it can perish by rain or moisture causing loss to the economy. Investment by corporate sector in agriculture is negligible due to factors of uncertainty on the return on investment. Of late, the return on investment in agriculture have become uncertain not only because of yield but also because of price volatility in international market in the post-reform period. This factor of uncertain returns could dissuade private investors contributing to the low investment levels in the sector.

c) **Low Investment in Agricultural Research:** In spite of huge significance of agriculture for our economy, there is very low increase in investment in agricultural research over the years (it has increased from 0.25 percent of GDP during 1981-83 to

0.4 percent of GDP during 2012-14). Low expenditure on R & D in India is one of important factors because of which there is low productivity of crops in India. In the absence of proper research based inputs, farmers are not aware of soil suitability for production of specific crops. They also do not know the appropriate proportion in which inputs like fertilisers, pesticides, weedicides, etc. should be used for achieving higher agricultural output without the accompanying environmental damage. Further, because of low investment in agricultural research, there is almost negligible innovation in the Indian agricultural sector. In the absence of scientific cultivation, there is lower output as the potential of inputs cannot be fully realised.

d) **Fragmented Landholdings:** The ownership of land in India is highly skewed in favour of few households who are big landlords. Most of the rural households in India are either landless or own less than two acres of land. With division of family, over a period of time, the successive size of landholding has become smaller, even for medium and large land holding families, thus making them unsuitable for scientific cultivation. According to the Agricultural Census 2011, 67 percent of landholdings in India were with marginal (less than one hectare) landholdings and 18 percent were with small (one-two hectare) landholdings. Large holdings (more than ten hectares) were only 0.7 percent.

e) **Absence of Proper Training and Finance:** Most of the farmers are illiterate and are without the required training for scientific methods of cultivation. This results in low productivity of crops. Further, although Government has made it compulsory for bank to lend 40 percent of their total credit to the primary sector and institutional credit has increased during last one decade, with the Kisan Credit Card (KCC) scheme providing short term loan to farmers at 4 percent rate of interest, many farmers in India are unable to benefit from it. This is because bulk of the small and marginal farmers' community are illiterate and cannot fulfil the requirements for availing bank loans who generally prefer to lend against some collateral. Hence, most of the small farmers in India avail loan from local money lenders because of convenience. They end of paying huge interest on loans taken and in case of crop failure, it results in huge pressure on such poor farmers who get caught in debt trap.

f) **Marketing:** Although Government announces Minimum Support Price (MSP) for some agricultural products and there is also some organised Mandis for selling food grains, most of the small and marginal farmers are unable to sell their produce in these APMC (agriculture produce marketing committee) Mandis. They end up selling their produce in local market without knowing the actual price of their produce in the market. Sometimes, there are 'distress sale' in which farmers' harvest are sold at a price lower than even their cost.

g) **Soil Erosion**: Indian agriculture suffers from the problem of soil erosion by flood and wind because of deforestation which reduces availability of fertile land for cultivation of crops. This can be prevented by scientific deforestation and afforestation practices.

h) **Excessive Use of Fertilisers and Pesticides:** Farmers use fertilisers and pesticides for growing crops without caring about degradation of soil fertility. This has resulted in depletion of soil fertility levels and reduction in productivity of crops. Productivity of almost all Indian crops is less than world average. Such problems can be solved by promoting the use of organic manures both for enhancing and preserving productivity of soil and crops.

2.4 Interdependence between Agriculture and Industry

Simon Kuznets summarised the contribution of agricultural sector to economic development in the following words:

- Produces food and raw materials;
- Creates market for goods and services produced by the secondary and tertiary sector;
- Supplies labour and capital to the manufacturing and services sectors; and
- Earns foreign exchange through trade.

The important aspect of such an interdependence is that the finished product of one sector is used as input by the other sector with the growth of one sector mutually influencing positively the economic activities of the other sectors.

2.6 Factors Determining Agricultural growth

A number of different factors can cause agricultural productivity to increase or decrease. It is important to note that productivity is not an absolute measure, but rather a

reflection of the ratio between inputs and outputs. A field that produces twice as much of some crop as it did in a previous year is not necessarily twice as productive; if the farmer spent twice as much on that field, the net change in productivity would be zero. Factors that affect farm productivity and often can't be in the control of the farmer are:

1. **Weather** - unusual weather patterns, such as drought, a prolonged rainy season, early or late frosts and other factors can ruin crops and bring productivity down.
2. **The Capacity of a Given Farm** - soil can't be forced to produce beyond capacity, although there are methods that can be used to improve production capacity, such as proper fertilizing to add nutrients to the soil so that it can support more crops.
3. **Pests occurred or not by certain weather conditions** - in addition to spoiling crops, pests can add significantly to the costs of producing a crop. Controlling them may require measures such as fencing, chemical or biological treatments, companion planting or crop rotation, all of which change the ratio of inputs to outputs.
4. **Available Equipment** - in regions where access to mechanized farm equipment is low, agricultural productivity can also be low as people handle their crops primarily by hand. This involves a big investment of time, energy and money and also limits the total capacity of the land
5. **The Supply and Demand in the Market** - farmers will adjust their activities to meet the needs of consumers and this can have an impact on agricultural productivity. In some cases, governments even pay subsidies to farmers to compensate them for not growing crops, which can skew productivity measures.

For agricultural productivity innovation is a key factor. If farmers want to increase their productivity, they need to farm smarter, by using farm management system Agrivi. It helps them manage whole farm production, from tracking of activities on all fields, consumption of fertilizers, pesticides, work hours of workers and mechanization, to tracking of finances and complete farm analysis and reports. Investment in developing new farming techniques and in researching new approaches to farming need to be on a daily basis.

2.7 India’s food Inflation: The timeline

A chronological account of India’s recent food inflation reveals several important events, many widely documented and researched:

A set of policy interventions commonly known as the “Green Revolution” limited food inflation episodes to be short-lived and less intense during the 1980s and 1990s. Such

interventions, that combined price incentives, input subsidies, technological inputs and infrastructure investments, (particularly in irrigation) and, very importantly, buffer stocks, helped to raise and stabilize the productivity of cereal cultivation, as well as other crops.

However, during the 1990s and 2000s, agricultural supply growth slowed, averaging about 3½ percent per annum; while cereal production grew by only 1½ percent per annum in the 2000s. Against firming consumer demand, running down buffer stocks helped contain food inflation during the early 2000s, as MSP growth moderated.

The Indian government's response to a surge in global food prices beginning in 2007-08, helped limit the impact on domestic food prices (OECD, 2009). However, buffer stocks continued to fall, eventually falling significantly below accepted norms. For example, around mid-2007, the wheat stock in the Central Pool amounted to only about half of the buffer stock norm. Moreover, a series of government measures – such as, large increases in food and fertilizer subsidies, and over 30 percent increase in minimum support prices for the 2008/09 season – likely not only postponed but also prolonged inflationary pressures, even after global food commodity prices abated. In addition, the global commodity price spike episode of 2007–08 also led to excessive stock hoarding in the subsequent years, a shift in the buffer stock policy resulting in sustained inflationary pressure.

Deficient rainfall, as a result of the weaker monsoon in 2009, affected output of key agricultural crops and was an important factor behind elevated food inflation spilling into 2010 (RBI, 2014b). Overall, growth in food inflation outpaced non-food inflation by almost 30 percentage points during 2006–10: food inflation exceeded non-food inflation on an average by almost 7½ percentage points per year during this period.

Yet, even though 2010 turned out to be a good monsoon year, food inflation remained high. Furthermore, despite 2011 being another relatively good monsoon year, food inflation surged again following a minor blip in food prices. Moreover, this time non-food inflation also picked up simultaneously, averaging about 9½ percent during 2010– 13 – a full 3 percentage points higher than the average of 6½ percent recorded during 2006–09.

Thus, even as relative food prices staged only a moderate gain during 2010–14, headline inflation remained high, driven by entrenched, elevated inflation expectations, and firming of the inflationary spiral with food inflation feeding quickly into wages and core inflation.

2.7.1 India's food Inflation: The supply-demand angle

While a number of supply side-factors could be responsible for Indian food price pressures, they need to be scrutinized in the context of India's growing food demand. Underpinned by robust economic growth, India's private consumption growth rose to about 8½ percent during 2005/06–2011/12, up from 5 percent average growth rate recorded during 1998/99–2004/05. Moreover, private consumption growth was essentially unaffected by the Global Financial Crisis (GFC). However, following a slowdown in the economy, private consumption growth declined in 2012/13 and 2013/14; thereby, reducing demand-side pressures on food inflation.

Agricultural GDP growth remained robust during 2005/06–2007/08, growing at around 5 percent per year (Figure 7). However, with private consumption growing at 9 percent during these years, demand-side pressures – aggravated by a surge in global commodity prices – contributed significantly to the rise in relative food prices in India. During these three years, food inflation accelerated significantly. For example, WPI food inflation jumped to about 8¾ percent per year during this period from about 1¾ percent average recorded during 2000/01–2004/05. Furthermore, the surge in relative food prices continued for another two years (2008/09–2009/10).

Even though private consumption growth moderated due to the GFC, it remained strong during 2008/09–2009/10. Coupled with weak agricultural GDP growth in those years (due to deficient rainfall), it led to a further rise in relative food prices. Finally, as a result of a good monsoon, agricultural GDP growth recovered in 2010/11 and 2011/12 to 8 ½ and 5 percent, respectively. Simultaneously, with a concurrent moderation in private consumption growth due to the economic slowdown, relative food prices remained broadly stable during 2010/11-2011/12. However, non-food inflation during this period was high and remained firm in the 9–10 percent range, partly as a result of the accommodative monetary stance in India resulting from a delayed withdrawal of stimulus provided during the GFC.

2.8 Agricultural Price Policy:

Introduction The significant element in the agricultural strategy followed in the post-Green Revolution period is the application of modern technology. Since modern technology is capital intensive, farming has become market oriented and is sensitive to the cost of inputs and price of outputs. The role of price policy for adoption of modern technology becomes crucial. Thus, both technological change and prices are seen as important instruments for accelerating

growth in the agricultural sector. Once an appropriate technology becomes available, then price policy assumes significance in stimulating production through the allocation of desired level of resources.

The policy makers face the challenge of formulating a suitable agricultural policy by which food security may be achieved. To formulate an effective price policy for food-security, it is important to understand the degree of responsiveness of input demand and crop output supply to input-output prices and technological changes. A better understanding of demand elasticities helps to predict future demand of food and non-food commodities under different scenarios of demand shifters, and thereby could help policy planners to take appropriate policy decisions.

Subsidies and price controls are used by the government to enhance production and meet the objective of food security in the country. Agricultural policies in India also use remunerative prices to the farmers as one of the important means to achieve the objective of food security and uplift farmers' income. Farmers' net incomes have not been rising due to high cost of inputs and decelerating total factor productivity growth (TFPG). Climate change has led to an increase in different types of risks — adverse effects on agricultural production, rise in the prices of agricultural commodities and change in the commodity demand. The benefits of higher prices are not getting passed to most farmers, especially small holders; rather, they are grabbed by middlemen/traders.

The food inflation may not impact the demand for staple food due to the public distribution system (PDS) and price inelasticity, but it adversely affects the demand for high-value food commodities. The food demand behavior can be explained using a set of demand elasticities for major food commodities. If food inflation remains high, there is a possibility of reversal of dietary diversification, thus, accentuating undernourishment. Government's intervention would be necessary to ensure food and nutritional security of the poor.

2.8.1 Objective of Price Policy

The primary goal of agricultural price policy has been to make food available to consumers at reasonable prices as well as to increase food production. The minimum support price (MSP) is the key instrument used for setting agricultural commodity prices.

In the 1960s, the agricultural price policies were formulated with the objective of meeting the food requirements in the country and managing food scarcity. The broad framework of the

policy was specified in the terms of reference of the Agricultural Prices Commission (APC), which was set up in 1965, that is, to advise the government on a regular basis for evolving a balanced and integrated price structure. In the 1980s, the APC was renamed as Commission for Agricultural Costs and Prices (CACP), and the objective shifted away from maximising the cereal production to diversified production pattern consistent with the overall needs of the economy.

In the mid-1980s, the objective of the MSP was broadened. Accordingly, the price policy aimed not only to provide farmers with price as a risk insurance to cover fluctuations, but to influence cropping pattern and respond to international prices and trade requirements. The political environment for cereals policy changed in the 1990s, when India started opening its economy for trade and signed the World Trade Organisation (WTO) agreement. The agricultural prices dominated the discourse on agriculture issues and farmer's welfare, and this enhanced the direct intervention of the government to ensure remunerative prices for farm produce. The agricultural price policy has three components, namely, MSP, buffer stocks and public distribution system (PDS), which are interconnected. Procurement by the government at MSP for major crops is for the dual purpose of maintaining buffer stocks of food grains and its distribution through PDS. India's food security through PDS is crafted with the aim to attain food self-sufficiency by making basic food grains available to all its citizens at an affordable price.

The Food Corporation of India (FCI) was set up under the Food Corporations Act 1964 to provide farmers remunerative prices while ensuring availability of food grains at reasonable prices to the vulnerable sections of the society. The FCI also maintains buffer stocks to ensure the country's food security. To enable this large target of procurement and maintaining a buffer stock, the government announces MSP for major crops keeping in view the need to protect the interest of farmers. The MSP is fixed for basic food and non-food commodities. This price support policy acts as insurance to farmers against any sharp fall in the farm prices, and thus brings about stability in real farm income.

Since the mid-1990s, the government has implemented key changes in food grain policy by targeting large food subsidy outlays and decentralising the public food grain operations. The former PDS was transformed into the Targeted Public Distribution System (TPDS), which focused on subsidised food for those living in poverty and had a range of programmes aimed at groups such as the poorest of the poor, the unemployed and school children. The government

also begun the process of decentralising responsibilities for public sector purchasing, movement and storage of food grains to the states to improve efficiency and reduce budgetary costs. However, it was in the early 2000 that the agricultural policy started seeing MSP as a remunerative price and not just a price that provide a safeguard against market fluctuations.

Contrary to the general belief, the cost of production was not the sole basis for arriving at the level of MSP (Acharya 1997, 2016). The MSP of various agricultural commodities in India is decided based on the recommendations of CACP. The recommendations use data at the district and state level, and account for factors like cost of production, change in input prices, trends in market prices, demand and supply situations, inter-crop price parity, international prices and so on. To fix the MSP, other factors like acreage, yield, production, imports, exports, stocks, availability, cost of processing and marketing are also considered.

2.8.2 Issues with Price Policy

Overall, it is believed that agricultural price policy has been largely successful in providing reasonable level of margins over the total costs to farmers for major cereals like rice and wheat. It seems to have also encouraged farmers' investment in yield enhancing technology to increase production and enable sufficient procurement for buffer stocks. Several scholars have discussed the problems encountered while considering the cost of production for the purpose of determination of MSP. The studies see agricultural price policy as inadequate and ineffective for the farmers. Some studies, on the other hand, argue that prices are market distorting, create economic inefficiency, increase subsidy burden on government, underutilise the potential of crop diversification, and thus they are infeasible and unsustainable.

In the debate on price policy, several issues have been often discussed and highlighted. A brief account of them are as follows:

Though MSP is declared for 20 to 24 commodities, the actual procurement is mainly done for rice and wheat, sometimes oilseeds, onions, and recently pulses and potato (in Uttar Pradesh). The Situation Assessment Report of the National Sample Survey Organisation (NSSO) shows that a small fraction of farmers is realising the MSP. The main challenges for ensuring MSPs are inadequate markets and collection centres, lack of appropriate infrastructure and storage facilities, social safety net programmes confined to rice and wheat only, and imperfect information due to a weak price monitoring and forecasting system. To preserve the interest of the consumers, whose food requirements are subsidised through the PDS, the farmers are offered lower MSP in the time of a bumper harvest and are given marginally better

price in times of shortage. Thus, the determination of the MSP through the method of cost evaluation needs to be revised more rigorously so that farmers could earn more than subsistence incomes.

Since the MSP is provided for select cereal crops, this has led to the increased production of certain major cereal staples, and correspondingly constrained diversification of agricultural production away from a cereal-based system.

The MSP provides a long-term price guarantee to the farmers. It would lose its insurance value if the level were allowed to fluctuate, especially downwards. Any mechanical linkage with the cost of production would make the MSP prone to fluctuations.

The MSP is calculated from costs of production, and there is a considerable variation in the costs amongst farms. In such a situation, if the average cost is used to arrive at the MSP, the cost of many farmers would not be covered. The cost of production is higher than the all-India average in some of the poorer states due to low productivity, and prices realised do not cover all costs.

Cost-plus approach to price determination of crops ignores the demand dimension and does not encourage production of a commodity for which high yielding technology is available and farmers need to be given signals for its adoption. Apart from the cost of production, there are several other factors like changes in input prices, demand, supply, behaviour of market prices, inter-crop price parity, general price level and international price (for tradable commodities), which need to be considered for arriving at an appropriate level of support price.

Time of the announcement of the MSP is another important aspect of the effectiveness of price support policy. The price policy can influence farmers' decision to allocate area under crops based on the prices of alternative crops, but this is only possible if prices are announced much in advance to the sowing season.

Price volatility is higher for perishable commodities such as vegetables, fruits, milk, meat, eggs and fish for which MSPs are not announced. It is important to ensure market stability and remunerative prices to the producers of these commodities. Sometimes, the government intervenes in non-MSP crops like potato and onion, through either procurement or export/import decisions to stabilise their prices. Recently, the Government of Haryana announced an MSP-like scheme for four vegetables, namely, tomato, potato, onion and cauliflower. The compensation mechanism would be of similar type as of the price deficiency

mechanism. There are apprehensions that higher MSPs would dis incentivise production of non-MSP crops. Farmers would tend to go for more assured and higher MSP crops rather than non-MSP crops. This policy distortion would generate surplus of MSP crops at the cost of non-MSP crops. A strong market structure that assures remunerative prices coupled with effective crop insurance could provide income insurance to the producers of all crops.

2.9 Food Security in India:

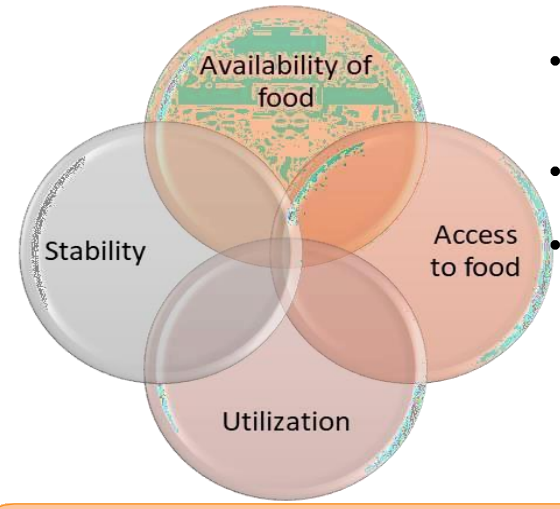
The Global Hunger Index (GHI) 2022, published by Concern Worldwide, an Irish aid agency, and a German non-profit, has ranked India at 107 out of 121 countries, in its assessment of how successful countries have been in combating hunger. Only 14 countries – many of them marked by violent strife – have performed worse than India. India's GHI score of 29.1 places it in the 'serious' category and is ranked below Sri Lanka (64), Nepal (81), Bangladesh (84) and Pakistan (99). Only war-torn Afghanistan at 109 is ranked below India in south Asia. Agriculture contributes about 18.8% to India's gross value added (GVA) and is the largest employer of the workforce (2021-22). There is an urgent need for reorientation of the long term direction of agri-food systems to not only enhance farm incomes but also ensure better access to safe and nutritious foods.

Additionally, the agri-food systems need to be reoriented to minimise cost on the environment and the climate. Further, food and nutrition are the way that we get fuel, providing energy for our bodies. The impact of inadequate nutrition perpetuates at not only individual level but also affects the macro level outcomes. At the individual level, the cycle of intergenerational malnutrition sets in at an early stage of life.

From an undernourished mother to low birth-weight babies, malnutrition perpetuates through childhood and adolescence and is compounded by inadequate feeding, limited access to health facilities, early marriages and early and frequent pregnancies. Malnutrition restricts the cognitive and physical development that consequently leads to poor educational and economic attainment perpetuating poverty. This creates a vicious cycle, which continues unless intervened at the right time. Higher proportion of inadequately nourished workforce leads to higher burden of morbidity and mortality, and adversely affects the overall income of a country. Various studies have estimated the economic cost of malnutrition ranging between 2 to 3 percent of the Gross Domestic Product (GDP) and as high as 16 percent in most affected countries.

2.9.1 Defining Food Security

The concept of Food Security evolved over time from 'freedom from hunger' in the early 1940s into broad concept encompassing four dimensions.



- *Availability is a physical determinant, which is ensured if adequate food is available at peoples' disposal.*
- *Accessibility is achieved if a household has sufficient resources to obtain an appropriate diet.*
- *Utilisation depends upon the biological and social environment and proper health care.*
- *Stability: To be food secure, a population, household or individual must always have access to adequate food. They should not risk losing access to food because of sudden shocks (e.g., an economic or climatic crisis) or cyclical events (e.g., seasonal food insecurity). The concept of stability can therefore refer to both the availability and access dimensions of food security*

The 1995 World Food Summit declared, "Food security at the individual, household, regional, national and global levels exist when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life" (FAO, 1996, p.3). The declaration further recognises that "poverty eradication is essential to improve access to food".

2.10 Dualism in Indian manufacturing:

Manufacturing enterprises are those engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery. Depending upon the amount of the investment the manufacturing enterprises can be classified into four categories:

1. Micro Enterprises: These are enterprises which have an investment limit of twenty-five lakh rupees.

2. Small Scale Enterprises: These are enterprises which have an investment of more the twenty-five lakh rupees and less the five crore rupees

3. Medium Scale Enterprises: These are enterprises which have an investment of more than five crore rupees and less than 10 crore rupees

4. Large Scale Enterprises: These are enterprises which have an investment in plant and machine of more than 10 crore rupees.

Manufacturing Industry in India has gone through various phases of development over the period of time. Since independence in 1947, the Indian manufacturing sector has travelled from the initial phase of building the industrial foundation in 1950's and early 1960's, to the license–permit Raj in the period of 1965–1980, to a phase of liberalization of 1990's. The Indian Manufacturing sector performed fairly well till 2011 however, after recording an impressive CAGR of about 10 per cent during the period 2005 to 2011, manufacturing output grew by only 0.2 per cent per annum during the years 2012-13 and 2013-14. The share of manufacturing in GDP, which hovered in the range of 15-16 per cent in the past two decades, has edged downwards to 14.9 per cent in 2013-14. 2. It currently contributes 15-16% to GDP (2015) and gives employment to 12% (2014) of the country's workforce.

2.10.1 Structure of the Manufacturing Sector

Indian manufacturing is characterised by the prevalence of a large 'unorganised sector' existing side by side with the formal or organised sector. The Indian statistical authorities distinguish four types of establishments. There are three sub-categories within the unorganised sector including: (i) Own account manufacturing enterprises (OAME), which are household enterprises making use of only family labour; (ii) Non-directory manufacturing establishments (NDME), which employ at least one wage (hired) worker and have 2-5 workers in total, and (iii) Directory manufacturing establishments (DME), employing 6-9 workers in total, of which at least one would be a hired worker. These three sub-categories co-exist with establishments in the formal or organised sector, which are statistically defined (by the Factory Act) to be employing ten or more workers. The peculiarity of the Indian structure in the manufacturing sector is that it largely makes use of hired labour as the dominant type of employment in the enterprise. This includes both the DME and the organised sector as defined under the Factory Act When we look at the data available with Annual Survey of India (ASI) we observe that there are two strong modes in the distribution of employment in modern manufacturing: in the '500 and more' category, and the '5-9' category, with the proportion of employment in the intermediate middle size groups being conspicuously small. This phenomenon is called the "missing middle". Indian manufacturing sector has faced a strong bi-modal distribution in

employment with a strong concentration in small and large sized establishments with a conspicuous "missing middle". The economic reforms during the last decade were expected to have made a serious impact on the structure of manufacturing. With dismantling of the traditional policy of reservation of a long list of products for the small-scale, liberalisation of import controls, particularly on a range of consumer goods and the relaxation of the licensing system for large-scale industrial units it was expected to have significant effect on the large-scale sector in moving away to more labour-intensive production and given a boost to middle-sized firms. However, there has been an increase in employment in all manufacturing, which has been almost entirely due to the increase in employment in the unorganised sub-sector

2.10.2 Impact of the Dualism:

Despite accelerated economic growth in India, the economy has shown some disturbing characteristics. These include three critical characteristics. Firstly, the growth process seems to have been led by the tertiary sector—both in terms of value added and employment, rather than manufacturing. Secondly, while the expectation in a labour abundant economy might be that the tertiary sector would have disproportionately absorbed labour displaced from agriculture at low levels of earnings, the data seems to suggest that this has not been so. The earnings level in the tertiary sector has been significantly above that in manufacturing, suggesting that growth in the tertiary sector has been productivity-led rather than employment-led. Thirdly, the manufacturing sector in India has been characterised by a persistent 'dualism'. There has been a strong bi-modal distribution in employment with a strong concentration of employment in the small and large size groups of establishments, with a conspicuous 'missing middle'. It is the 'dualism' in the manufacturing sector which has slowed down the expected dynamic role of this sector in the growth of the economy.

The government's Annual Survey of Industries 2013–14 found that of the 185,690 factories in operation, just 1.9 percent employed more than 1,000 people, and 73.2 percent employed fewer than 50 people (see figure 3).19Factories employing more than 1,000 people made up 46.63 percent of the total fixed capital employed and 41.24 percent of the total output, whereas the smallest factories, which employed nearly three-fourths of the labour pool, accounted for just 7.06 percent of total fixed capital and 11.18 percent of total output. As a measure of total cumulative capital invested in plant and machinery,20 though 91.31 percent belonged to the MSME category, collectively they accounted for only 13.1 percent of the total fixed capital employed, and they contributed just 27.03 percent of the total output.

The dualism drags down the manufacturing sector are,

- The missing middle implies a weak process of transformation from small to large scale enterprises.
- Dualism slows down the growth of labour force with industrial skills. The slow growth of skilled labour force, in turn, impacts the choice of technology. The shortage of skilled labour has slowed down the growth of employment in the industrial sector.
- The missing middle has also lead to lack of integration of markets which has become a major bottleneck. It has led to splitting of the industrial market products into low quality products supplied by small scale enterprises and high quality products supplied by large establishments.
- It also has created a large gap in productivity between the two size of groups. The gap between the productivity has been due to gap between marginal productivity of capital and labour.
- Thus the dualistic nature has increased inequality and slowed down the pace of growth in this sector. Compared to other economies where the manufacturing sector has the largest share in GDP and is the key driver of growth the Indian manufacturing sector has become stagnant.

2.10.3 **Causes of the Emergence and Persistence of Dualism**

1. **Multitude of Labour legislations**: This has been traditionally at the top of the list of the proximate causes of the phenomenon. Under the Indian Constitution labour is a concurrent subject meaning both state and centre can enact laws in this area. The Ministry of labour lists about 52 independent Acts and there exits another 150 state level laws. This adds up to approximately 200 labour laws. Thus most of the firms prefer being capital intensive to avoid labour laws.
2. **Infrastructure problems:** These appear to be almost as important in the causes of limited vertical mobility of small enterprises. Inadequate supply of power produces not only low productivity of small dispersed units, but also accentuates the need for heavy lump-sum capital investment for firms needing to provide their own generators for electricity, and biases the economies of scale favouring very large units.
3. **Education polices:** The policies that have been implemented in India over the years, have been biased towards the promotion of tertiary education and have neglected basic

primary and low secondary education. Modern manufacturing requires a minimum of basic education for a workforce to able to perform up to minimum standards in modern manufacturing. Small and medium-sized units—adopting comparatively labour-intensive technology—benefits from an ample supply of such labour. They are contrasted with tiny units, which could use nearly unskilled labour with less than primary education for low-grade production, but would find it difficult to grow beyond a certain scale with such labour. The relatively plentiful supply of skilled labour with higher education biases production to less labour-intensive industry and modes of production. Large units have a comparative advantage in using such labour, which smaller units cannot afford.

4. **Small Scale Reservation Policies:** The protection of small-scale units has been an important aspect of Indian industrial policy since Independence. It has taken the form of reservation of a large number of items for production in exclusively small units and the provision of incentives— fiscal, financial and legislative—as long as the units stay below a certain size. Such policies have always provided an incentive for entrepreneurs to expand horizontally with more small units, rather vertically with larger middle-sized units.
5. **Hysteresis:** The policy of reservation for the small-scale units largely ended with the post-1991 reform process. But we have seen that the impact of the reforms on the size structure of establishments in manufacturing has been minimal. This limited impact might be due to widelyrecognised processes in which a socio-economic system established over a long period of time tends to persist even after its original causes have disappeared. This persistence is not just due to inertia. Economic agents and institutions acquire characteristics that sustain the system. For example, entrepreneurs develop ambitions to think in terms of horizontal rather than vertical growth. Marketing channels, financial institutions and infrastructure are geared more towards supporting small units with limited markets rather than dynamic units growing into larger sizes and different markets.

2.11 Issues in performance of public sector enterprises and privatization

No country in the world has lately been immune from the trend of restructuring of its economy because of a compelling combination of circumstances. India at one time had a huge public enterprise sector. It consisted of nearly 1,300 enterprises, owned and managed by the central government, state and union territory governments, and local governments in the

country. These had dominated many sectors of the economy by including: surface irrigation; water supply in rural and urban areas; railways; river transport; ports; postal services; telecommunications; mining (including hydrocarbons and coal); one-third of registered manufacturing (particularly steel, petrochemicals, capitals goods, pharmaceuticals, fertilizers); power generation and distribution; oil and gas production and marketing; air transport; one-third of bus transport; storage; and banking and insurance. As you may be aware, same of these sectors have been transferred to private sector recently

2.11.1 Reasons for poor performance of Public Sector Enterprises (PSEs)

Why are public enterprises in India so inefficient? The answer lies in the environment that public enterprises in India operate in, and in effect this environment has on the public enterprise managers' incentives to develop new, better and less expensive products, develop new markets, minimise capital and current costs, and maximize profits. Descriptions which illustrate this environment include: the government's deep involvement in the actual management of public enterprises, with the concerned administrative ministries' tendency to function as if they were a kind of super management on top of the Board of Directors; Parliament's involvement in public enterprises' affairs in several ways, including through numerous questions and enquiries ranging from questions of overall performance and policy issues to the minutest details of day-to-day functioning; and expansion of the horizon of Article 26 of the Constitution to treat even industrial, manufacturing and commercial public enterprises as 'state' and thereby subject them to the various obligations that go with such a treatment.

2.11.3 Privatisation

Privatisation, is a term that is employed to convey a variety of ideas. The idea that it most prominently suggests is 'denationalisation' (in the sense of transferring the ownership of a public enterprise to private hands). Another idea in vogue is 'liberalisation and deregulation'; which unleash forces of competition. In this context, the concept of privatisation becomes wider to be understood, not merely in the structural sense of who owns an enterprise, but in the substantive sense of how far the operations of an enterprise are brought within the discipline of market forces. For convenience, a distinction could be made between micro (roll back as producer state); macro (roll back of state as producer, regulator, facilitator, and welfare provider); and mega (roll back in all dimensions including non-economic regulations). Micro privatisation referring to producer state essentially deals with public enterprise.

2.11.4 Rationale behind Privatisation

A few factors seem to have brought the issue of privatisation on the forefront. They are as under:

- The monopoly status of public sector enterprises (PSEs) bred inefficiency.
- Lack of competitiveness affects PSEs performance very adversely.
- Bureaucracy was also responsible for poor performance of PSEs. It was certainly not always upto turning such enterprises around.
- Restructuring of the PSEs by way of privatisation became very common in developed countries like UK and U.S.A.
- A lot of intellectual discussion and debate started on privatisation all over the world and pressure of public opinion also exerted influence.
- Some aid giving agencies even started forcing the pace by linking aid with privatisation.
- Suggestions from management of public sector enterprises themselves led to fresh thinking towards privatisation.

2..11.5 Arguments in Support of Privatisation:

Advocates of privatisation claim that it will lead to an improved economic performance. The reasons for such a view are the following:

i) It will improve the environment public enterprises operate in and thereby strengthen their managers' incentives to be efficient. These in turn can contribute to making the Indian economy substantially more efficient.

ii) Privatisation may create conditions for substantial additional investment, which may help in generation of a large number of productive employment opportunities, which in turn may contribute to removing poverty.

iii) Consumers may gain from privatisation.

iv) Privatisation can be of help in reforming public enterprises. These enterprises are engaged in innumerable activities such as manufacturing steel; building ships; generating and distributing electric power; running domestic and international airlines; exploring, producing and refining oil; operating domestic and international telecom network; running hotels; manufacturing polyester film; making condoms; producing fruit pulp and juice; running banks as also life and general insurance and electronic entertainment business; and so on. Privatisation will allow the

government to concentrate on things, which it has failed to do, but which it alone can do.

v) Privatisation can be of major help in reducing India's huge public sector deficit. This can happen in three ways:
   a. the proceeds from the sale of public enterprises can be used to finance the public sector deficit,
   b. the proceeds can be used to reduce the outstanding public debt, both domestic and external; and
   c. will reduce the burden of interest payments and thereby the deficit.

vi) Privatisation is expected to ensure generation of revenue to finance social infrastructure and eradication of poverty.

2.11.5 Techniques of Privatisation:

1) Public offering of shares: all or part of a shares of the public limited company are offered for sale to the public as a running concern.
2) Private sale of shares: all or part of the shares of a state owned enterprise are sold to a private individual or a group of purchasers in the private corporate sector.
3) New private investment in a state owned enterprise: primary share issues are subscribed by the private sector or public.
4) Sale of Government or state enterprises assets: the assets of the public sector are sold as private sale instead of shares.
5) Reorganisation or fragmentation into smaller units: a holding company with a number of subsidiaries can be privatised separately.
6) Management/Employee buyout: the management or the employees acquire the controlling interest in the unit in which the shares are purchased on credits extended by Government or financial institutions.
7) Lease and management contract: the ownership remains with the Government while the lessee assumes full responsibility for operations and maintenance. Under management contract, the owner pays for the management and operational control.

2.11.6 Modes of Privatisation

In terms of policy initiative in the Indian context, privatisation is generally conceptualized in three broad ways, viz., greenfield privatisation; cold privatisation and

disinvestment or divestiture (in particular distressed privatisation). The features of each of these modes are summarized below:

1) Greenfield Privatisation:

Under this method the barriers to entry, including 'reservation' for the public sector are removed and private sector is encouraged to enter. Under this mode actions move on the following lines:

a) removing barriers of entry for the private sector and it is allowed to do economic activity hitherto reserved for public sector;
b) not allowing any new investment or new activities on the part of the public sectors agencies;
c) preferential treatment being given to the private sector for increasing the level of its activities;
d) in enterprises where private and public sectors have been functioning side-byside, such as the joint sector, the relative share of the private sector may be increased.

2) Cold Privatisation or Proxy Privatisation:

Under this method public enterprise made to behave as private enterprises by:

a) giving financial autonomy to seek financial assistance directly from the bank/capital market;
b) giving autonomy to make investment decisions;
c) entering into a Memorandum of Understanding (MOU) for providing freedom to fix prices, output etc.;
d) making subsidies explicit;
e) taking recourse to corporations, i.e., converting a department enterprise into a corporate entity to ensure distancing.

3) Disinvestment or Divestiture

Disinvestment or divestiture is effected by sale or transfer of shares held by the government directly or through its agencies in enterprises (i.e., public activities organized under enterprise form) to the private sector. When a loss-making enterprise is turned over to the private sector because the government can no longer support and sustain it, this can be termed 'distressed privatisation.'

a) It may be mentioned that alternative approaches are possible to analyzing techniques. For instance, the techniques can be divided into: privatisation of financing (that is charging for government services);
b) privatisation of production or provision (contracting out construction and maintenance or giving franchises to private sector);
c) denationalization or load-shedding (that is sale of shares or assets held by government); and
d) liberalization (removing restrictions and promoting competition).

2.11.7 Problems Associated with Privatisation

Privatisation is not a very easy option. Problems are there and it is always not very easy to overcome them. Some of the major problems are:

1) choice of PSEs for privatisation.
2) opposition from employees.
3) pricing of assets/or equity.
4) extent of disinvestment.
5) mode or preference of selling.
6) political instability.

These problems are very complex and it is not possible to find out an easy way out. The question of permission to be given to foreign investors, particularly in the consumer goods sector, is very difficult to decide. Disinvestment should be done, but in favour of whom? Should it be in favour of financial institutions or to be sold to general public? If management control is retained by the Government, then improvement in efficiency will be doubtful. Sometimes, it is also feared that owing to political considerations the very policy of privatisation might to reversed. There has been sustained pressure from the organisation of employees against the policy of privatisation and disinvestment.

Check Your Progress

Q. No.	Short Question	CO	PO	Level
1	Briefly state the performance of the agricultural sector in India in recent decades.	CO1	PO1	K2
2	Mention any two factors determining agricultural growth in India.	CO1	PO2	K1
3	What is food inflation?	CO2	PO1	K1
4	Define dualism in Indian manufacturing.	CO3	PO2	K2
5	What is meant by privatization of public sector enterprises?	CO4	PO3	K1

Q. No.	Essay Type Question	CO	PO	Level
1	Analyse the performance of the agricultural sector in India and examine the major factors determining agricultural growth.	CO1	PO2	K4
2	Discuss the factors underlying food inflation in India.	CO2	PO3	K4
3	Examine the objectives and significance of agricultural price policy in ensuring food security in India.	CO2	PO3	K3
4	Compare industrial growth in India before and after economic reforms, highlighting the problem of dualism in Indian manufacturing.	CO3	PO4	K4
5	Evaluate the performance of public sector enterprises in India and critically assess the role of privatization.	CO4	PO4	K5

UNIT III

Fiscal Development

3.1 Introduction:

Overview of Indian Public Finances and Public Spending The role of government in terms of the share of public expenditure in GDP has remained remarkably stable varying from 25 to 28 per cent since 1991. In 1990-91, it was 26.7 per cent and remained so even after twenty years.

Public spending on social and physical infrastructures, besides low allocation is beset with poor productivity. Many infrastructure projects are marked by time and cost overruns. The governments habitually take on too many projects for which they cannot provide adequate funding resulting in the thin spread of resources and cost and time overruns. Often, public – private partnership projects for which government provides viability gap funding take inordinately long time for want of land acquisition and disputes. The Central government intervenes through specific purpose transfers in activities like Sarva Shiksha Abhiyan (SSA) for elementary education and National Health Mission (NHM) for health.

Another important development in public spending is the intrusion of Central governments into several state subjects through various central schemes. This is an important political economy development. With coalition governments at the Centre having regional parties as pivotal members of the coalition, there is considerable pressure to initiate programmes with immediate and direct benefits to the people even if it is in the State List. At the same time, there are states ruled by regional parties unfavourable to the parties ruling at the Centre.

3.2 Indian Public Finance:

Deficits and Debt Persistence of large fiscal deficits in India has led to huge build-up of debt. At over 75 per cent of GDP, India’s debt is significantly higher than comparable estimates for middle income countries (58 per cent). While generally, public spending financed by borrowing is necessary, it is important to see that it leads to additional economic activity. There is considerable controversy on the desirability of financing public expenditures by borrowed funds. The Ricardian equivalence theorem posits that fiscal deficits do not have impact on interest rates and growth because the government’s dissaving is matched by household’s decision to have higher savings to meet additional tax liabilities in the future. In

the real world situation, however, that is not likely. For the Ricardian equivalence theorem to hold, it is necessary to meet the strong assumptions that the individuals in the economy have the foresight, know the discount rates equivalent to government's discount rates on spending and have very long time horizons for evaluating present value future tax payments.

3.3 Tax System in India:

Trends and Issues The tax policy is a major instrument through which the resources are transferred from the private sector to the government for financing public services. However, whenever taxes are imposed, distortions are inevitable as they affect the incentives to save, invest and undertake risks. A good tax system is supposed to raise the required revenues by minimising the collection cost, the compliance cost and the cost in terms of the distortions it creates. The best practice approach to tax reform is to have a broad base, low rate, minimum rate differentiation and a simple and a transparent tax system. While the taxes must have progressive distribution, excessive emphasis on redistribution could be counter-productive. The focus of policy should shift from reduction inequality to reducing poverty and this is better achieved through public spending policies.

3.4 Trends in Expenditure

The expenditure policy during the pandemic year 2020-21 was focused on prioritisation of expenditure according to evolving situation. In the initial phase of the pandemic, the Government ensured that funds were made available for essential activities and that scarce resources were conserved for re-prioritisation. With the easing of movement and health-related restrictions later in the year, expenditure was focused in sectors with the most positive effect on the economy, either in terms of re-kindling growth or meeting welfare needs. Second to pandemic relief, the Government placed maximum priority on productive domestic capital expenditure which has a high multiplier effect on the economy

In the wake of the pandemic, the additional expenditure requirements led to a YoY growth of more than 30 per cent in the revenue expenditure of the Government in 2020-21 PA (below mentioned Table). Expenditures on salaries, pensions and interest payments are, by and large, committed in nature and have limited headroom for creation of additional fiscal space. The decline in salaries during 2020-21 PA was largely due to freezing of the additional installment of Dearness Allowance to Government employees and disruptionsin hiring. Nearly 60 per cent of the increase in revenue expenditure during 2020-21 PA was due to increase in major subsidies. The major subsidies registered a growth of over 200 per cent in 2020-21 PA over

2019-20. This increase was driven by almost 400 per cent growth in food subsidies from ` 1.09 lakh crore in 2019-20 to ` 5.25 lakh crore in 2020-21 PA. The steep rise in food subsidy bill was on account of Pradhan Mantri Garib Kalyan Ann Yojana introduced as part of the Economic Response to COVID-19, and the pre-payment of around ` 1.5 lakh crore of outstanding food subsidy related loans of the Food Corporation of India.

Table: Major Items of Revenue Expenditure

Items	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21 PA**	**2021-22 BE**
(in ` lakh crore)						
Revenue Expenditure of which	16.91 (9.9)	18.79 (11.1)	20.07 (6.8)	23.51 (17.1)	30.86 (31.3)	29.29 (-5.1)
a. Salaries (pay & allowances)	1.77 (22.6)	1.94 (9.3)	2.11 (9.0)	2.28 (7.8)	2.05 (-10.0)	2.52 (22.9)
b. Pensions	1.31 (35.8)	1.46 (10.9)	1.60 (9.9)	1.84 (14.8)	2.09 (13.7)	1.90 (-9.0)
c. Interest payment	4.81 (8.8)	5.29 (10.0)	5.83 (10.2)	6.12 (5.0)	6.82 (11.4)	8.10 (18.7)
d. Major subsidies	2.04 (-15.6)	1.91 (-6.3)	1.97 (2.9)	2.28 (16.0)	6.90 (202.0)	3.35 (-51.4)
e. Defence Services	1.65 (13.3)	1.86 (12.5)	1.96 (5.1)	2.08 (6.1)	2.06 (-0.9)	2.12 (3.1)

Source: Union Budget Documents & CGA BE: Budget Estimate, PA: Provisional Actuals Numbers in parenthesis are growth rates

*The figure for Salaries (Pay & allowances) for 2020-21 is Revised Estimate (RE).

3.5 GST: Rationale and Impact & GST: A Historical Perspective

The Kelkar Task Force on Fiscal Responsibility and Budget Management (FRBM) recommended in 2005 introduction of a comprehensive tax on all goods and service replacing Central level VAT and State level VATs. It recommended replacing all indirect taxes except the customs duty with value added tax on all goods and services with complete set off in all stages of making of a product.

In the year 2000, the then Prime Minister introduced the concept of GST and set up a committee to design a GST model for the country. In 2003, the Central Government formed a taskforce on Fiscal Responsibility and Budget Management, which in 2004 recommended GST to replace the existing tax regime by introducing a comprehensive tax on all goods and services replacing Central level VAT and State level VATs. It recommended replacing all indirect taxes except the customs duty with value added tax on all goods and services with complete set off in all stages of the value chain. An announcement was made by the then Union Finance Minister in Budget (2006-07) to the effect that GST would be introduced with effect from April 1, 2010 and that the EC, on his request, would work with the Central Government to prepare a road map for introduction of GST in India. After this announcement, the EC decided to set up a Joint Working Group in May 10, 2007, with the then Adviser to the Union Finance Minister and Member-Secretary of the Empowered Committee as its Co-conveners and four Joint Secretaries of the Department of Revenue of Union Finance Ministry and all Finance Secretaries of the States as its members. This Joint Working Group got itself divided into three Sub-Groups and had several rounds of internal discussions as well as interaction with experts and representatives of Chambers of Commerce & Industry. On the basis of these discussions and interaction, the Sub-Groups submitted their reports which were then integrated and consolidated into the report of Joint Working Group

3.5.1 Constitutional Amendment:

As explained above, unification of Central VAT and State VAT was possible in form of a dual levy under the constitutional scheme. Power of taxation is assigned to either Union or States subject-wise under Schedule VII of the Constitution. While the Centre is empowered to tax goods up to the production or manufacturing stage, the States have the power to tax goods at distribution stage. The Union can tax services using residuary powers but States could not. Under a unified Goods and Services Tax scheme, both should have power to tax the complete supply chain from production to distribution, and both goods and services. The

scheme of the Constitution did not provide for any concurrent taxing powers to the Union as well as the States and for the purpose of introducing goods and services tax amendment of the Constitution conferring simultaneous power on Parliament as well as the State Legislatures to make laws for levying goods and services tax on every transaction of supply of goods or services was necessary.

The Constitution (115th Amendment) Bill, 2011, in relation to the introduction of GST, was introduced in the Lok Sabha on 11.03.2011. The Bill was referred to the Standing Committee on Finance on 29.03.2011. The Standing Committee submitted its report on the Bill in August, 2013. However, the Bill, which was pending in the Lok Sabha, lapsed with the dissolution of the 15th Lok Sabha.

The Constitution (122nd Amendment) Bill, 2014 was introduced in the 16th Lok Sabha on 19.12.2014. The Constitution Amendment Bill was passed by the Lok Sabha in May, 2015. The Bill was referred to the Select Committee of Rajya Sabha on 12.05.2015. The Select Committee submitted its Report on the Bill on 22.07.2015. The Bill with certain amendments was finally passed in the Rajya Sabha and thereafter by Lok Sabha in August, 2016. Further the bill was ratified by required number of States and received assent of the President on 8 th September, 2016 and has since been enacted as Constitution (101st Amendment) Act, 2016 w.e.f. 16.09.2016.

The important changes introduced in the Constitution by the 101st Amendment Act are the following:

a) Insertion of new article 246A which makes enabling provisions for the Union and States with respect to the GST legislation. It further specifies that Parliament has exclusive power to make laws with respect to GST on inter State supplies.
b) Article 268A of the Constitution has been omitted. The said article empowered the Government of India to levy taxes on services. As tax on services has been brought under GST, such a provision was no longer required.
c) Article 269A has been inserted which provides for goods and services tax on supplies in the course of inter-State trade or commerce which shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council. It also provides that Parliament may, by law,

formulate the principles for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

d) Article 270 has been amended to provide for distribution of goods and services tax collected by the Union between the Union and the States.
e) Article 271 has been amended which restricts power of the Parliament to levy surcharge under GST. In effect, surcharge cannot be imposed on goods and services which are subject to tax under Article 246A.
f) Article 279A has been inserted to provide for the constitution and mandate of GST Council.
g) Article 366 has been amended to exclude alcoholic liquor for human consumption from the ambit of GST, and services have been defined.
h) Article 368 has been amended to provide for a special procedure which requires the ratification of the Bill by the legislatures of not less than one half of the States in addition to the method of voting provided for amendment of the Constitution. Thus, any modification in GST Council shall also require the ratification by the legislatures of one half of the States.
i) Entries in List I and List II have been either substituted or omitted to restrict power to tax goods or services specified in these Lists or to take away powers to tax goods and services which have been subsumed in GST.
j) Parliament shall, by law, on the recommendation of the Goods and Services Tax Council, provide for compensation to the States for loss of revenue arising on account of implementation of the goods and services tax for five years.
k) In case of petroleum and petroleum products, it has been provided that these goods shall not be subject to the levy of Goods and Services Tax till a date notified on the recommendation of the Goods and Services Tax Council.

3.5.2 Features of GST

- GST will subsume central indirect taxes like excise duty, services tax etc and also State levies like VAT, entry tax, luxury tax etc.
- It will have two components, central GST levied by Centre and State GST levied by the States.
- Only Centre may levy and collect GST on supplies in case of inter-state trade and collection of tax will be divided between centre and state.

- A two-rate structure will be adopted. It means lower rate for necessary items and goods of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items.
- Over-lapping of tax, tax on tax will be eliminated with GST
- Both Goods and Services are taxed in same manner in chain of supply till they are reached to consumer. They are not distinguished under GST.

3.5.3 Benefits of GST

- GST provide comprehensive and wider coverage of input credit setoff; you can use Service tax credit for the payment of tax on sale of goods etc.
- CST will be removed and need not pay. At present there is no input tax credit available for CST.
- Many indirect taxes in state and central level included by GST, you need to pay a Single GST instead of all.
- Uniformity of tax rates across the states
- Ensure better compliance due to aggregate tax rate reduces.
- By reducing the tax burden, the competitiveness of Indian products in international Market is expected to increase and there by development of the nation.
- Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

3.5.4 Impact of Goods and Service Tax

I. Food Industry

The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

II. Housing and Construction Industry

In India, construction and Housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

III. Fast Moving Consumer Goods (FMCG) Sector

Despite of the economic slowdown, India's Fast Moving Consumer Goods (FMCG) has grown consistently during the past three – four years reaching to $25 billion at retail sales in 2008.Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size to $95Billion by 201835.

IV. Rail Sector

There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so as to keep overall GST rate low. This will have the added benefit of ensuring that all inter – state transportation of goods can be tracked through the proposed Information technology (IT) network.

V. Financial Services

In most of the countries GST is not charged on the financial services. Example, In New Zealand most of the services covered except financial services as GST. Under the service tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where consideration for them is in the form of an explicit fee. GST also include financial services on the above grounds only.

VI. Information Technology enabled services

To be in sync with the best International practices, domestic supply of software should also attract G.S.T. on the basis of mode of transaction. Hence if the software is transferred through electronic form, it should be considered as Intellectual Property and regarded as a service. And if the software is transmitted on media or any other tangible property, then it should be treated as goods and subject to G.S.T. 35According to a FICCI – Technopak Report. Implementation of GST will also help in uniform, simplified and single point Taxation and thereby reduced prices.

VII. Impact on Small Enterprises

There will be three categories of Small Enterprises in the GST regime. Those below threshold need not register for the GST. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. Those above threshold limit will need to be within framework of GST Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect of Central GST, the position is slightly more complex. Small scale units manufacturing specified goods are allowed exemptions of excise up to Rs.1.5 Crores. These units may be required to register for payment of GST, may see this as an additional cost.

3.6 Evolution of Financial Sector:

The history of India's economic growth is divided into two phases, the first 43 years (1947-1990) after independence featuring measures of socialism, and the last twenty-three years (1991-2013) as a free market economy. During the first 43 years after independence, the government controlled most of the consumer services, and coupled with regulation in the manufacturing sector, India witnessed limited growth. The first three decades of India's policy formulation were marked by socialist policies. Between 1950 and 1980 India grew at an annual rate of 3 to 3.5 percent, which was also referred to as the "Hindu rate of growth." But 1991 saw the nation enter into a new phase of economic policies. For the first time India saw a shift away from its socialist ideologies. The impetus for these reforms started in 1980s when Rajiv Gandhi became the Prime Minister and brought some macro-economic changes.

Following the reforms in 1991, the Indian economy has enjoyed a strong capital growth with annual GDP growth exceeding 8 percent since 2003. Private investments have grown extremely fast and constituted 80 percent of the total investments in 2010-11. The poverty ratio went down from 45 percent in 1992-93 to 32 percent in 2009-10. This growth has been accompanied by some structural changes. The share of services in total GDP jumped from 43 percent in 1990-91 to 58 percent in 2010-11, while that of agriculture slipped to 14 percent in 2010-11 from 28 percent in 1990-91.

3.6.1 Pre-Liberalization Scenario:

After independence, India was under immense financial hardships. Especially in the 1950's and 1960's India saw a number of bank failures. The private commercial banks were unable to fulfill the social and development goals of banking. Hence, to better align the banking

system to the needs of the economic policy in India, the Government of India issued an ordinance in 1969, which led to the nationalization of India's 14 largest commercial banks. This event shaped the philosophy of financial sector reforms over the next 15 years. Successively, in 1972 the insurance sector was nationalized. By 1980, six more banks had been nationalized by the Government of India controlling almost 91 percent of the banking business in India. Nationalization enabled the banking system to quickly expand in the rural areas. Population per bank office came down from 65,000 in 1969 to 14,000 in 1990. Increased branches also gave rise to higher domestic savings.

In terms of financial markets, the bond market and FOREX market were limited. The call money rate was controlled. But the stock market was an exception as India had one of the oldest stock exchanges in Asia, the Bombay Stock Exchange (BSE). Yet it also had a lot of controls on the floatation of new issues by the Controller of Capital Issues (COCI). Finally, India's economic model was based on the policy of "self-reliance". Hence, most of the investments were financed by domestic savings and there was reluctance to permit foreign investments.

In 1990-91 when trade imbalances were accompanied by a fall in private remittances, the current account deficit widened to 3.2 percent of the GDP. With the Gulf crisis happening at the same time, capital inflows dried up and India pledged gold to the Bank of England to escape a default. Overall by1991, the government had built up a big banking network, boosting growth and savings, but also giving rise to numerous problems and inefficiencies. Based on government policies the nationalized banks gave enormous loans to small-scale industries and sectors such as agriculture. However, banks struggled to recover loans and non-performing loans increased. Labour productivity and efficiency came down. It was clear that the financial sector needed to be liberalized for a higher growth trajectory.

3.6.2 Post Liberalization Scenario: Development of India's Financial Markets:

With liberalization taking place in early 1990's, India's financial markets began their transformation path. Financial liberalization was part of greater reliance on the private sector after the 1991 foreign exchange crisis. After the 1991 capital markets crisis, regulations were strengthened, listings were liberalized, foreign investors were allowed in, and infrastructure was substantially improved. The following are,

A. **Banking Reforms:** Banking reforms came in two sets, both chaired by M. Narasihman. The first report: Narasihman Committee I took place in 1991 and was primarily devoted to giving operational freedom to banks. The second report came in

1998 and was called Narasihman Committee II, which focused on stability issues and prudential regulations. Some important reforms in banking are discussed below.

1. Interest Rate Deregulation: Complete deregulation culminated by October 1994 and a system of prime lending rate was introduced. It brought in a lot of transparency in lending rates.
2. Reduction in Statutory Pre-emption: Both the Capital Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) were reduced. By August 2003 the CRR rate had come down to 4.5 percent and by October 1997, the SLR had already been reduced to its minimum level of 25 percent. The SLR is seen as a genuine tool to ensure safety of the banking system.

3. Ownership Structure and opening up to private sector: The Indian banking sector opened up to private bank formations in 1993 and 10 new bank licenses were given to them. The publicsector banks were also allowed to raise money from the market by issue of equity as long as they maintained 51 percent public ownership.

The above mentioned reforms brought significant changes in the Indian banking system. The most important was increased competition amongst banks due to entry of new domestic and foreign banks.

B. **Reforms in the Capital Markets:** Some sweeping reforms led to spectacular growth in in the capital markets. There were increases in capital raised from the market, the number of stocks listed, the investor population, and most importantly technological sophistication leading to improved transparency and efficiency. Following are some of the important reforms that contributed to the capital market boom in India.

   (i) Market Pricing of Issues: The office of the Controller of Capital Issues (COCI) was abolished, which removed the administrative controls over the pricing of new equity issues. Pricing was left to the market. This facilitated better price discovery.

   (ii) Creation of the Regulatory Bodies: The Securities and Exchange Board of India (SEBI) were empowered in 1992. It was created to protect the interests of investors and promote the development of the securities market. With the setting up of SEBI all market intermediaries are supposed to be registered with SEBI, which also sets down the guidelines for Disclosure and Investor Protection. This enabled transparency in the capital markets and built trust in the investors, playing a very important role in increasing the capital raised by

companies from the markets. In addition, the establishment of the National Securities Clearing Corporation (NSCC) in 1996 removed the problem of counter-party risk as it guaranteed each trade.

(iii) **Open Electronic Limit Order Book Market:** A major reform was introduced in 1994 when National Stock Exchange (NSE) started Electronic Limit Order Book (ELOB) and screenbased trading. It was followed by the Bombay Stock Exchange (BSE) in 1995. This enabled much higher liquidity and facilitated transparent screen-based trading, as the open outcry method earlier was dominated by the traders at BSE. This also paved way for nationwide connectivity. As the ELOB was based on a computer-based matching system, it integrated the nationwide markets, reducing the price variations between markets. Orders placed from any part of the country by a computer could be matched with any order from any part of the country, thus reducing arbitrage opportunities. It enabled the market to become more efficient and reduced transaction cost.

(iv) **Depository Services:** With lack of technology, share transfers till 1996 required physical movement of share certificates. To sell the stock the shareholders had to send certificates to the company through post offices. This resulted in a lot of back office work and increased transaction costs. Also to get the shares transferred it took up to 45 days, adversely affecting the stock liquidity. But with the passing of the Depository Act in 1996, depositories were allowed to dematerialize securities and convert physical securities into electronic form. The depositors were also supposed to electronically record who owned the stock. This directly reduced transaction and handling costs, while also reducing the possibility of forgery and counterfeiting. Liquidity improved and contributed to market efficiency. India currently has two depositories: National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CDSL).

(v) **Derivatives Trading:** One of the most important reforms took place in June 2000 with the introduction of exchange-traded derivative instruments. Instruments such as futures and Options enabled investors to better hedge their positions and provided them with better risk management.

(vi) **Capital from Abroad:** In 1994 Indian companies was given access to raise capital from abroad using Global Depository Receipts (GDRs) and American

Depository Receipts (ADRs). Hence, the corporate capital formation was available from domestic savings as well as from foreign savings.

(vii) **Foreign Portfolio Investment:** Another landmark reform that took place in 1993 was the opening up of the Indian stock market for foreign portfolio investment and for the first time Foreign Institutional Investors (FIIs) were allowed to invest in the Indian stock market. This was a big boost to the secondary market. It also played a huge role in boosting India's foreign exchange reserves, especially at a time when the country's reserves were precarious after the 1991 crisis. In addition, the increase in capital flowing from outside reduced interest rates which had a positive impact on investment and growth.

(viii) **Corporate Debt:** Before 1991, the corporate debt market was extremely inactive due to control of interest rates and limited issuances. But in May 1992, the interest rate ceiling for corporate bonds was abolished. In addition, SEBI has approved trading of corporate bonds on NSE, BSE and Fixed Income Money Market and Derivatives Association (FIMMDA). Also Foreign Institutional Investors (FII) limit for investment in domestic corporate bonds have been increased to USD 40 billion. However, the corporate debt market is still rather underdeveloped and illiquid.

C. **Other Reforms:** A lot of other reforms also contributed to the boom in capital markets. The mutual fund industry was opened to the private sector. Stock buyback facilities were granted to companies. And most importantly, a lot of risk-management enhancements were put in place.

Overall, after successful implementation of a decade of reforms beginning of 1991, the Indian capital market was transformed dramatically. Following are positive effects of the reforms:

- Substantial improvement in liquidity.
- Market-determined pricing.
- Better risk management with possible use of derivatives.
- Development of regulatory bodies.
- Global integration and integration of markets within the country.
- Electronic trading leading to much more efficient and transparent market.

The significant growth acceleration took place in the financial services industry in India after these reforms were put in place. The development of the equity capital market took an

exponential growth trajectory largely reflecting the approach to the segment of the government. The market index SENSEX more than tripled between 2000 and 2007. Market capitalization increased from less than USD 300 billion to more than USD 1 trillion during this period. The growth was fueled by both the domestic as well as foreign investors. FIIs poured in a lot of money as liberalization allowed them to make higher investments and derivative markets allowed them to hedge risks. The Bombay Stock Exchange became the 11th largest stock exchange in the world by market capitalization as of December 2012.

3.7 External sector:

India's external sector have three units in this block which improving the Balance of Payments (BoP) position of the economy.

3.7.1 Foregin Trade:

Foreign trade plays an important role in the economy of any country and is considered as an engine of growth. Like in every other economy, Indian economy and foreign trade are closely interlinked. Foreign trade is a crucial part of development strategy. It has been an effective mechanism of financial growth, creation of job opportunities and poverty reduction in the economy. Foreign trade results in proper use of the resources of the country; making available necessary inputs for industrialization; providing outlet for surplus production and earning much needed foreign exchange.

Indian economy and foreign trade are closely interlinked. Foreign trade has a significant impact on the GDP growth as well as expansion. As such foreign trade is a crucial part of development strategy.

It has been an effective mechanism of financial growth, creation of job opportunities and poverty reduction in the economy. Foreign trade results in proper use of the resources of the country; making available necessary inputs for industrialization; providing outlet for surplus production; earning much needed foreign exchange. It helps the country to deal with the periods of natural calamities (droughts, floods, etc.) through import of food grains and other necessary consumer goods. In the present age of globalization, the government has initiated changes in its strategy on trade, foreign investment, and tariffs. An appropriate and skillfully designed foreign trade policy is essential for India's rapid economic growth. In this unit, you will learn the trends in volume of trade, composition of trade; and direction of trade in post – reform period. We will also examine the principal features of India's foreign trade policy. We will sum up the discussion with highlight on the concept of foreign trade multiplier.

3.7.2 Balance of payment:

Balance of payments (BOP) is an accounting statement of all international monetary transactions of a country. These transactions arise due to flow of goods, services and capital between a nation's residents and the residents of the rest of the world during a given period of time. BOP is a key to understanding how people trade one country's money for that of another country. In addition, the transactions documented in the balance of payments have major implications for macroeconomic concerns like growth, inflation and unemployment.

Components of BOP can be grouped into three broad categories: current account, capital account, and reserves. Let us learn them in detail.

1) **Current account:** The current account consists of merchandise trade, services, and unrequited transfers. Merchandise trade is typically the first part of the current account. It receives more attention than any of the other accounts. Merchandise trade transactions, where the imports and exports of goods are reported, are often the largest single component of all international transactions. Export receipts are treated as credit entries, and imports payments as debits in current account. The second type of transactions in the current account is those payment and receipts for which there are no corresponding receipts or payments. These are called unrequited payments and receipts. These transactions are unilateral transfers. **Services:** The services category includes many payments such as freight, banking and insurance on international shipments; tourist travel; profits and income from overseas investment; personal expenditures by government, civilians, and military personnel overseas; and payments for management fees, royalties, film rental, and construction services. Purchases of these services are recorded as debits, while sales of these services are similar to exports and are recorded as credits. The net receipts from these transactions together with the net transactions in the trade account constitute the balance of current account. Here, it is important to note that positive net receipts imply a current account surplus and negative net receipts imply a current account deficit. The balance of current account is a larger concept as it includes the balance of trade, the balance of services, and the balance of unrequited transfers. The balance of current account need not be equal but can show a surplus or a deficit.

2) **Capital account:** The capital account records all international purchases and sales of assets such as money, stocks, bonds, etc. Capital account items are transactions that

involve claims in ownership. It shows net change in foreign-asset-ownership of a nation. Foreign direct investment (FDI) involves managerial participation in a foreign enterprise along with some degree of control. Foreign portfolio investment (FPI) is investment designed to obtain income or capital gains. Transactions in the capital account affect the international debtor or creditor position of the country and the distribution of wealth and debt. Capital account transactions give rise to future claims such as acquiring foreign assets or share in companies located abroad.

3) **Reserves or the monetary movements:** This refers to record of transactions with the International Monetary Fund (IMF) and foreign exchange reserves that mainly consist of holding of gold and foreign currency assets. Drawings (treated as a kind of borrowing) from IMF is a credit item, whereas repayments made to IMF are debit items. Reserves are used for bringing BOP accounts into balance. When all the components of balance of payments are taken together, the balance of payments should be in balance. Credits should equal debits.
4) **Net Errors and Omissions:** You must have noticed that millions of rupees in transactions are reported in BOP statements, it should come as no surprise that the amount of recorded debits are never equal to the amount of credits. This is why there is an entry in the reserve account for net errors and omissions. Net errors and omissions reflect the imbalances resulting from imperfections in source data and compilation of the balance of payments accounts.

3.7.3 World Trade Organization (WTO)

On the conclusion of the Uruguay Round, The WTO was setup on January 01, 1995, comprising 164 member States. It provides a common platform to negotiate trade agreements among member countries and to resolve any trade disputes. The WTO has been the cornerstone of the multilateral rules-based global trading system since its inception in 1995. The WTO is an international organization that deals with the global rules of trade. The policies of the WTO impact all aspects of global society.

3.8 Services Sector Performance: An Overview

As per the First Advance Estimates for Gross Value Added (GVA) from the Ministry of Statistics and Planning Implementation, services sector growth (YoY) continued to moderate during 2019-20, reaching 6.9 per cent from 7.5 per cent in 2018-19 (Table 1). By sub-sector,

growth (YoY) in 'financial services, real estate & professional services' decelerated to 6.4 per cent during 2019-20 and that in 'trade, hotels, transport, communication & broadcasting services' remained on a downward trend, reaching 5.9 per cent in 2019- 20. However, 'public administration, defence & other services' witnessed an acceleration in activity during 2019-20, with a growth (YoY) of 9.1 per cent. Notwithstanding the recent underperformance, the services sector continues to outperform agriculture and industry sector growth, contributing around 55 per cent to total GVA as well as to total GVA growth.

3.8.1 Indian Services Sector

India has a dominant influence among the leading 10 services export countries in 2020, with its spurring share in the global commercial services exports from 3.4% in 2019 to 4.1% in 2020. With vast inoculation drive and pickup in global demand, India's service sector exports showed a resilient spike with more than 25% growth in the FY 2021-22. The value of exports for April-December 2022 is estimated at US$ 235.81 billion which is a 21.69% increase as compared to April- December 2021, US$ 184.65 billion. Moreover, services exports in the month of December 2022 are estimated at US$ 27.34 billion as compared to US$ 25.98 billion in December 2021, exhibiting a growth of 4.97%. moreover, Exports of services are an important source of demand for the Indian economy and account for a larger share of output than in most major economies. The importance of India's services exports mirrors that of the broader services sector in India, which is large compared with other countries at a similar stage of development.

Components of Services Exports

The ITS sector is the largest and one of the fastest growing services exporting sectors of the Indian economy; over the past 15 years, the value of ITS services exports has grown. The ITS sector is also predominantly export oriented, with exports accounting for around two-thirds of its revenue (NASSCOM 2011).

Destination of Exports

There is no detailed breakdown of India's services trade by country. However, as cheap labour costs and English language skills have been some of the key drivers of the expansion in ITS and services exports, it would seem likely that a large share of these exports are to advanced economies, particularly those where English is spoken. Surprisingly, data for advanced economies suggest that their services imports from India account for only a relatively small

share of India's total services exports. Services imports originating from India and imported by the United States, euro area and the United Kingdom together account for only around one-fifth of India's total services exports. It is possible that this low share reflects difficulties that statisticians face in identifying the source country for services imports.

3.9 The Manufacturing Sector in India.

Assessing the performance of India's manufacturing sector is difficult because it depends on the perspective from which it is viewed. The sector has a relatively small share of GDP and it has remained at this level since the mid-eighties with minor variations. Furthermore, the share has been relatively stagnant over the past four decades or more. The share in 2015 at 16.6 per cent is almost the same as in 1965, 16.8 per cent.

The government seeks to raise this share. It is believed that a larger contribution from the manufacturing sector will increase the number of jobs. Providing employment for the new entrants to the labour market as also those who are currently unemployed is considered imperative. The share of manufacturing after declining in the mid-1960s because of the slowdown in the economy caused by droughts and the cutback of aid arose steadily from 14.7 per cent in 1967 reaching 20.4 per cent in 1979, the highest level it has ever reached. The share then declined continuously till 2001 when it was 17.3 per cent. There were then five years of increase and the share reached 19 per cent in 2006. But then it resumed its fall.

The share of manufacturing in GDP is much lower in India than in many East and South-East Asian countries. In the past it has also been lower than in Latin American countries such as Brazil and Mexico. But here also it must be remembered that the share of manufacturing in GDP has been less than 10 per cent in low income countries which India was till recently. India is a low middle income country now and the average share of manufacturing in GDP for the period 2011-15 was 16.6 per cent almost the same as India's share. The share in upper middle income countries is still higher than in India but it has declined from its peak of 20.3 per cent of GDP in 1974-82 to 21.7 per cent during 2011-15. The share in EAP has declined from 34 per cent during 1974-82 to 20.3 per cent in 2011-15. In Latin America it has declined from 26.7 per cent to 14.5 per cent during this period.

Among the BRICS countries India's share is higher than in Brazil, Russia and South Africa whereas earlier it used to be lower. The share has been declining for a considerable period in many of the BRICS countries. The peak share for China was 40.1 per cent reached in 1978, for South Africa it was 24.1 per cent reached in 1981 and for Brazil it was 34.6 per cent

reached in 1982. The peak share for Russia was 18.3 per cent reached in 2005; but data for the period before 2002 is not available in the World Bank Indicators, but obviously the share was much higher before the collapse of communism.

A successful feature of India's manufacturing sector has been its export performance. The share of the output exported has been increasing while that for three of the other BRICS countries has been decreasing so that by 2011 India was exporting a larger share of its output than these other countries. Employment in manufacturing in India grew at 1.8 per cent per year between 1995 and 2011; the same rate as in Brazil but about half that in China where it increased by 3.6 per cent a year.

Check Your Progress

Q. No.	Short Question	CO	PO	Level
1	What is meant by expenditure trends in the Indian economy?	CO1	PO1	K1
2	State the rationale behind the introduction of Goods and Services Tax (GST) in India.	CO1	PO2	K2
3	Mention any two major changes in the Indian financial sector in the post-liberalization period.	CO2	PO1	K1
4	What is meant by India's emergence as a major exporter of services?	CO3	PO2	K2
5	Briefly state one issue faced by the manufacturing sector in India's external trade.	CO3	PO3	K1

Q. No.	Essay Type Question	CO	PO	Level
1	Analyse the major trends in public expenditure in India and discuss their implications for economic development.	CO1	PO2	K4
2	Examine the rationale for GST and assess its impact on the Indian economy.	CO1	PO3	K5
3	Discuss the evolution of the Indian financial sector in the post-liberalization period.	CO2	PO4	K4
4	Analyse the performance of India's external sector with special reference to the emergence of India as a major exporter of services.	CO3	PO3	K4
5	Evaluate the performance of the manufacturing sector in India in the context of external trade.	CO3	PO4	K5

UNIT-IV

Poverty and Inequality

4.1 Concept of Inequality:

Why would one be interested in understanding the inequality in the resource (income/wealth) distribution? There are two reasons: philosophical and ethical grounds for aversion to inequality per se and the functional reason. The philosophical and ethical grounds mean that the individuals having different level of access to lifetime economic resources should not be treated differently for that reason. Descendants have to face the consequences of the ancestors' limited economic resources. On the other hand, parents' right to bequeath their wealth to their children also leads to some individual inheriting more than sufficient wealth. So, it is like two sides of the same coin. Bequeathing wealth seems to be a good way as well as an unfair means to perpetuate inequality. If one does not care about inequality at an intrinsic level and just cares about the overall economic growth, we say that the person cares about inequality at the functional level. It means the reason for caring about inequality is because inequality has an impact on economic features which one cares about.

There are many economic interpretations, ideological and intellectual stances of inequality. Its definition may depend on what stance one takes. Which way one divides the given cake would be parallel to the way an actual income distribution deviates from a benchmark for distributing income. Hence, there is a scope of having different views about the degree and size of inequality, its relevance and attached policies.

Income conditions are often used as a good proxy for understanding economic conditions because income is positively correlated to the living standards and other wellbeing indicators. But only the income inequality does not shape up the economic inequality. Inequality of opportunities is as important as inequality of outcomes; they both are related as well. Let us take an example of an individual who is talented but cannot afford good education which means he is facing inequalities of opportunities. As a result, he is likely to have a low-income level which indicates inequality of outcomes.

4.1.1 Concept and Meaning of Poverty

We always welcome the economic growth that spreads its benefits equitably among the population. If the growth is distributed unequally then it needs to be assessed in terms of equity. First, there exists an inequality of world income distribution and then there is the inequality of

income distribution within a country. If a country is under developed, then the most visible characteristic of that country will be the existence of poverty. It is not easy to describe poverty and its related dimensions (illiteracy, hunger, ill health, capability deprivation), head on. Poverty is like a threat to the existence of individuals who are poor. It destroys the aspirations, hopes and potential joy of good health and nutrition. Poverty also indicates the absence of productive asset holdings, like possession of land. Hence, the basic implication of poverty is that the poor will lack access to markets, particularly the markets for credit, insurance, land, and labour. The absence of collateral restricts their access to credit markets. This leads the individual to the Poverty Trap. This trap makes it very difficult for a poor individual to escape poverty as some amount of capital possession is required in order to escape. Low wages, low work opportunities, inability to pay for education are all causes of poverty trap. Poverty trap is a spiral which forces people to remain poor.

Another perspective to look at the concept of poverty is through the work of Amartya Sen. His work is based on the relation of poverty with capability deprivation. Individuals are deprived of capability building if they are poor. For example, poverty denies the opportunity to gather the school experience which would lead to yet another type of poverty. Such individuals will not be able to read and write. That means they will not be able to participate in the activities which need literacy. Only those individuals who are literate will be able to capture the benefits of those opportunities. It is also important to look at poverty as per the society/economy where the individual lives. In addition, give importance to health, such as infant and child mortality rates and the life expectancy, and to participation in education. This means that the poor people in the world are poorer, and rich people are richer because income is positively related with the above-mentioned aspects of well-being.

4.2 India's Poverty Line Estimation

This section provides the progression Poverty Estimation in India, post-Independence. The Planning Commission constituted various expert groups time to time to estimate the number of people living in poverty in India.

1. **Working Group (1962):** For the first time, the poverty line in India was quantified in 1962 in terms of a minimum requirement which included food and non-food items, for individuals in order to lead a healthy life. This Group formulated rural and urban poverty lines at 20 and 25 per capita per month respectively (in terms of 1960-61 prices). The Group did not consider any regional variation while formulating these lines. This poverty line also excluded

expenditure on health and education as it was assumed to be taken care of by the state. So, in 1960s and 1970s these poverty lines were used to find out the state of poverty at national and state level.

2. **Study by VM Dandekar and N Rath (1971):** These two economists are responsible for laying the foundation of India's poverty line through their seminal work by establishing the minimum calorie requirements. This was not a study commissioned by the Planning Commission. They established the first consumption levels required to meet a minimum average calorie norm of 2,250 calories per capita per day. Their study was systematic wherein they utilized the National Sample Survey (NSS) data. Their poverty line was based on the expenditure required to procure 2250 calories per day in both rural and urban areas. They found poverty lines to be Rs. 15 per capita per month for rural households and Rs. 22.5 per capita per month for urban households at 196061 prices.

3. **Task Force on "Projections of Minimum Needs and Effective Consumption Demand" headed by Dr. Y. K. Alagh (1979):** This Task Force was constituted in 1977 and it submitted its report in 1979. Official poverty counts began for the first time in India based on the approach of this Task Force. Poverty line was defined as the per capita consumption expenditure level to meet average per capita daily calorie requirement of 2400 kcal per capita per day in rural areas and 2100 kcal per capita per day in urban areas. Based on 1973-74 prices, the Task Force set the rural and urban poverty lines at Rs. 49.09 and Rs. 56.64 per capita per month at 1973-74 prices.

4. **Lakdawala Expert Group (1993):** Until the 1990s, no attempt was made to consider differences in prices or differences in consumption patterns across states or over time, w.th respect to poverty lines estimation. Poverty estimates were revised with each quinquennial NSS survey. Price indices were used to adjust for price changes over time. So, in 1989, The Planning Commission constituted the Lakdawala Expert Group with a particular reason of looking into the methodology for estimation of poverty and to re-define the poverty line, if needed. The Expert Group did not redefine the poverty line and recommended to carry on with the separate rural and urban poverty lines based on minimum nutritional requirements. But the Expert Group disaggregated these poverty lines into state-specific poverty lines in order to reflect the inter-state price differentials. It suggested that the poverty lines should be updated using the Consumer Price Index of Industrial Workers (CPI-IW) in urban areas and Consumer Price Index of Agricultural Labour (CPI-AL) in rural areas rather than using National Accounts

Statistics. These recommendations were taken up by the Planning Commission. The Commission adopted the practice of calculating poverty levels in rural and urban areas in the states using state-specific poverty lines together with the national estimates from 1997 to 2004-05. But over the years, this method lost the credibility. There were many flaws in the price data. Hence, the successive poverty lines failed to preserve the original calorie norms.

5. **Tendulkar Expert Group (2009):** To review the methodology used for poverty estimation, in 2005, another expert group chaired by Suresh Tendulkar was constituted. Mainly, it was constituted to address the three key shortcomings of the previous methods: (i) Poverty estimates based on the 1973-74 poverty line baskets (PLBs) of goods and services did not reflect significant changes in consumption patterns of poor over time; (ii) Issues with the adjustment of prices for inflation, across regions and across time; and (iii) the assumption that only the state will provide for health and education. The Tendulkar Committee suggested a shift from calorie-based norms to target nutritional outcomes for poverty estimation and poverty lines. Further, the committee recommended a uniform all India urban PLB across rural and urban India instead of two separate PLBs for rural and urban poverty lines. It also recommended to incorporate private expenditure on health and education in order to estimate poverty. The monthly household consumption expenditure was broken up into per person per day consumption, which resulted in the figure of Rs 32 and Rs 26 a day for urban and rural areas. The national poverty line for 2011-12 was estimated at Rs. 816 per capita per month for rural areas and Rs. 1,000 per capita per month for urban areas.

6. **Rangarajan Committee (2014):** The Tendulkar committee made the urban poverty line of 2004-05 the new national poverty line on the grounds that it was “less controversial” than the current rural poverty line and it fulfilled the requirement of statistical consistency over time. This increased the number of rural poor. This new poverty line was also justified on the grounds that it also provided for minimum nutritional health and educational outcomes. These justifications were not enough to stand up to the scrutiny. Due to such criticism as well as due to changing times and aspirations of people of India, Rangarajan Committee was set up in 2012. This Committee submitted its report in June 2014. It again started the previous practice of having separate all-India rural and urban poverty line baskets and deriving state-level rural and urban estimates from these. Also, it recommended separate consumption baskets for rural and urban areas which include food items that ensure recommended calorie, protein & fat intake and non-food items like clothing, education, health, housing and transport. This committee raised the daily per capita expenditure to Rs 47 for urban and Rs 32 for rural from Rs 32 and

Rs 26 respectively at 2011-12 prices. Monthly per capita consumption expenditure of Rs. 972 in rural areas and Rs. 1407 in urban areas is recommended as the poverty line at the all-India level. The government did not take a call on the report of the Rangarajan Committee. Rangarajan committee missed the opportunity to go beyond the expenditure-based poverty rates and examine the possibility of a wider multi-dimensional view of deprivation.

4.3 Poverty Alleviation Programmes in India

There are many poverty alleviation programmes in India which target the rural poverty mainly, as the prevalence of poverty is more in rural India. The programmes include many wage-employment programmes, self-employment programmes, food security programmes, social security programmes, skill India Poverty programmes. A brief list of such programmes is as follows:

- Jawahar Gram Samridhi Yojana
- National Old Age Pension Scheme
- National Family Benefit Scheme
- Annapurna Scheme
- Pradhan Mantri Gramin Awaas Yojana
- Mahatma Gandhi National Rural Employment Guarantee Act (MGNAREGA).

Apart from these, a major programme started by India to alleviate rural poverty is Integrated Rural Development Programme (IRDP). It aims to alleviate rural poverty by providing income-generated assets to the poorest of the poor. This programme started in 1978-79. Its main aim is to identify the families which are below the poverty line and raise them by creating sustainable self-employment opportunities in the rural areas. Such families are provided with term credit by commercial banks, cooperatives and regional rural banks. The programme gathers 50% funds from the centre and the remaining 50% from the states. The target group are the individuals who earn less than 11,000 (as defined by the Eighth Five-year plan). To make the programme well targeted, it has stipulated well defined proportions for the scheduled caste families, scheduled tribe families, women and physically challenged persons among the total assisted people/families. Ministry of Rural Areas and Employment is responsible for the release of central share of funds, policy formation, overall guidance, monitoring, and evaluation of the program.

4.4 Poverty pre and post liberalisation era:

At the time when India got Independence the incidence of poverty in the country was about 80 per cent, or about 250 million. When poverty numbers began to be counted seriously in 1956, Prof. B.S. Minas of the Planning Commission estimated that 65 per cent, or 215 million Indians, were poor. In 2017 the number of people below that same poverty line of 2,200 calories a day was about 269 million, though the incidence has fallen to about 21.92 per cent. Successive governments keep pushing this level down and the present one fixes it at nine per cent. But they have a reputation of conjuring figures to suit a narrative. In 1947, agriculture accounted for percent of India's GDP. In 2020 it is at about 13 per cent. But at the time of Independence, 60 per cent of India, or about 180 million people, depended on agriculture for a living. In 2020, it is about 52 per cent, or 650 million people. Therein lies the tale of India's colossal failure to make its tryst with destiny. It still has too many people living off the land

4.5 PDS VS cash transfers:

There is a growing debate within the media and amongst policy circles on replacing the Public Distribution System through which subsidised food grains are made available to people, with direct cash subsidies where a fixed amount will be transferred into people's bank accounts each month. The Shanta Kumar Committee on Restructuring FCI has also recommended that the PDS must be replaced by cash transfers over the next few years. The Right to Food Campaign strongly feels that the Public Distribution System (PDS) must not be dismantled, as it plays an important role in not only improving people's access to food but also revitalising agriculture and promoting food production.

1. **We live in a context wherein.**

There is a larger countrywide trend of the government's withdrawal from providing even basic entitlements to its citizens. Privatisation of this kind is also being introduced in the health and education sectors. Repeated studies show that the India growth experience is lopsided, benefitting only a few while the majority faces poverty and deprivation. Almost half the children in the country are malnourished, 70% of women are anaemic and one third of all adults have a low body mass index. Hunger and starvation related deaths continue to occur in different parts of the country. Agrarian distress is pushing large numbers of poor to urban areas in search of livelihoods opportunities.

2. We are opposed to cash transfer

PDS is important for the poor. The PDS not only provides food security to people, but income support also frees up some wages to buy other essentials, and to some extent, protects people from market price fluctuations. While there are problems with the current implementation of the PDS such as exclusion of the genuinely poor due to identification errors, irregular supply, food grain leakages even before the rations reach the fair price shops (FPS), etc, experiences of states such as Tamil Nadu and Chhattisgarh have shown that it is possible to correct these. Poor implementation and monitoring cannot be the excuse to dismantle the system and replace it with cash transfers. The PDS needs to be reformed, not dismantled.

3. Leakages will remain even in cash transfers

The biggest problem of correct identification of the poor will remain and in fact be compounded if the recommendation to decrease coverage is accepted. Further, when the benefit is in the form of cash, the incentive for people to self- select themselves out of the system will be even smaller. All the current problems involved with setting a poverty line and identifying BPL families will get carried into the cash transfer/smart card system. Throughout the country, there are instances of delays and corruption in the banking system which is being witnessed even in other schemes such as maternity benefits, pensions and NREGA wage payments. The network of fair price shops is more accessible in remote rural and tribal areas than are banks and markets.

4. Cash does not guarantee food security:

Poor families are often debt ridden and are usually in need of cash to meet their household, medical, educational or other expenses. Cash transferred to them may be used for these purposes rather than being used to purchase food. Women bear the burden for providing food for themselves and for the household, and struggle daily to access adequate and affordable food in today's market oriented and neoliberal world. While they have greater control over food, they have little or no decision making power over money in the household. Replacing the PDS with a 'cash transfer' is therefore likely to further intensify not only their own struggle for food, but also make their families, further food insecure.

5. **Citizens will be at the mercy of market food price vagaries**

The prices of food grains under the PDS remain static despite market fluctuations and inflation, but in a cash transfer/smart card scheme the amount transferred will be fixed and not vary as per these changes. Hence, it will not offer any protection to poor families against rising prices of food and kerosene oil. This is an extremely grave problem in the current scenario of very high inflation rates. From the experience of previous cash transfer programmes (such as old age pensions, school scholarships), we know that the amount of transfer is not increased even when prices increase.

6. Agriculture will be impacted adversely

If cash transfers replace the PDS, the government would not need to procure grain. On the other hand, procuring at minimum support prices (or higher) directly from farmers can incentivise further production of food grains, and also provide much needed support especially to small farmers. An expanded PDS can therefore also be an opportunity to revitalise agriculture; a cash transfer will not.

7. There will be lack of transparency and accountability of privately owned shops

A smart card system will require a network of private shops equipped with the facility of reading smart cards. People would have to buy from larger retail shops, moving corruption from the fair price shop to the larger corporates such as Reliance, Walmart, etc. Demanding transparency and accountability from private operators is virtually impossible for people. It would be extremely difficult for people, especially the poor, to demand accountability from private shops and get their due ration supplies.

Universalise and Strengthen of PDS

In the context of food security, the needs to:

● Universalise the PDS

● Expand the PDS by including other commodities such as pulses and edible oil and

● Strengthen the PDS by introducing reforms such as de-privatisation of fair price shops, doorstep delivery of food commodities, end to end computerisation, putting in place an

effective system of transparency, accountability and grievance redressal, decentralise procurement and so on.

4.6 Universal basic income

During the first term of the NDA government, Arvind Subramanian, who was the Chief Economic Advisor then, had proposed the idea of universal basic income to citizens. In the Economic Survey 2016-17, he advocated UBI to cover every citizen's basic needs, making it easier to administer compared with the many existing anti-poverty scheme. A Universal basic income (UBI) is a socio-political financial transfer policy proposal in which all citizens of a given country receive a legally stipulated and equally set financial grant paid by the government.

4.7 Inequalities within a Country - India

India is a good example of growth with inequalities. With an average growth rate of 5% and above of GDP, the level of deprivation in terms of nutrition, healthcare and education is extremely high at more than 50% of the total population not being able to access reasonable levels of education and healthcare. India has pockets of advanced and modem industry and agriculture. These coexist with large areas of unorganized industrial sector and subsistence agriculture. Persistence of regional disparities in the country has been highlighted in various studies. Indicators like the proportion of population below the poverty line, the extent of malnourishment, illiteracy, lack of healthcare point towards high level of inequality in the country. In all the regions in lndia there are vast differences in income and living standards.

4.8 Measurement of inequality:

Income distribution can be studied by analysing functional income distribution and the personal income distribution. Functional. distribution of income tells us the distribution of income amongst factors of production while personal income distribution refers to the level of income distribution amongst individuals or households. The level of per capita income and the rate of change of personal incomes provide indications about the level of income inequality in an economy. Similarly, the average personal income level provides a crude indication of average welfare, while the level and range of per capita income provides equally crude indication of speed and direction of change in that welfare. There are different measurements to study income inequalities in an economic system. Two of the commonly used measurements are Lorenz Curve and Gini Coefficient.

Check Your Progress

Q. No.	Short Question	CO	PO	Level
1	What is meant by measuring poverty in India?	CO1	PO1	K1
2	What is a poverty line?	CO1	PO1	K1
3	State any two differences between poverty in the pre-liberalization and post-liberalization periods.	CO2	PO2	K2
4	What is Public Distribution System (PDS)?	CO3	PO1	K1
5	What is meant by inequality in the Indian context?	CO4	PO2	K2

Q. No.	Essay Type Question	CO	PO	Level
1	Examine the methods used to measure poverty in India, with special reference to the selection of poverty lines.	CO1	PO2	K4
2	Analyse the trends in poverty in India during the pre-liberalization and post-liberalization periods.	CO2	PO3	K4
3	Discuss the impact of economic growth on poverty reduction in India.	CO2	PO3	K4
4	Compare the Public Distribution System (PDS) and cash transfer schemes as instruments of poverty alleviation in India. (OR) Assess the feasibility of introducing Universal Basic Income (UBI) in India.	CO3	PO4	K5
5	Evaluate the extent and nature of inequality in India during the pre-liberalization and post-liberalization periods.	CO4	PO4	K5

UNIT V

SOCIAL SECTOR:

5.1 Poverty and Inequality:

In a society, everyone has the right to lead his/her life accordingly without any discrimination. When this state is achieved where all individuals are considered to be equal irrespective of their caste, gender, colour, profession, and status, we call it equality. Discrimination is a social menace that creates division. We stop being together and stand together to tackle our problems. This social stigma has been creeping in the underbelly of all the society for many centuries. This has also been witnessed in gender-based cases. Gender inequality is the thing of the past as both men and women are creating history in all segments together.

A nation needs to value every gender equally to progress at the right place. A society attains better development in all aspects when both the genders are entitled to similar opportunities. Equal rights in decision making, health, politics, infrastructure, profession, etc. will surely advance our society to a new level. The social stigma of women staying inside the house has changed. Nowadays, girls are equally competing with boys in school. They are also creating landmark development in their respective profession. Women are now seeking economic independence before they get married. It gives them the confidence to stand against oppression and make better decisions for themselves.

Gender equality can be measured and a country's growth can be traced by using the following methods.

1. Gender Development Index (GDI) is a gender-based calculation done similar to the Human Development Index.
2. Gender Empowerment Measure (GEM) is a detailed calculation method of the percentage of female members in decision-making roles.
3. Equity Index (GEO considers economic participation, education, and empowerment.

According to the **Gender Gap Index** (GGI), India ranks 113 among 135 participating countries. The Indian society is still wrecked by such stigmas that dictate that women are meant to manage home and stay indoors. Women are neglected even though our country is quickly gaining pace in economic development in the world. Other stigmas such as child labour, child marriage, and dowry also contribute to this problem.

Once all these menaces will be eradicated, every family will understand the value of a woman and our country will achieve gender equality in real sense. Women are creating examples everywhere and we all should highlight it to change the scenario and give them equal rights.

5.2 Labour force participation rate:

The labour force participation rate (LFPR) of females in India lags considerably behind the "norm". It is the urban component that is very low, the rural LFPR being high because of poverty and the necessity of work. The determinants of LFPR, primarily urban LFPR, are explored in this section.

There are three (and more) definitions of labour force in India. The preponderance of definitions for work status emanates from the structure of the economy in the 1950s and 1960s when it was heavily agricultural. The "original" definition of work status was divided into two components – principal and secondary. Starting in the late seventies, the NSSO started collecting data on the work status on a daily basis, and within each day, on a half daily basis.

the trend in labour force participation for men and women, and urban and rural. First, the large difference in the LFPR of women residing in the rural and urban areas. In rural areas the LFPR has hovered around 45 percent (but note the "data error" print of only 38 percent for 2007/8); the outlier nature of these data for LFPR needs to be investigated further). The international norm for LFPR for women is around 60 percent, and so even rural India is some distance away from "fitting" the worldwide pattern.

Urban India is lower, much lower, and with a labor force pattern not very dissimilar from that prevailing in most Islamic countries. And the rate has not changed much for the last 25 years with an average rate around 23 percent or a level a little more than half the level prevailing in the rural areas. In most developed economies, the share of students in the working age group stays relatively constant. In developing countries, and those involved in a transition, more education is the alternative to going out to work at the age of 15 or 16 or even 22.

The female education suggests that the LFPR "should be" a lot higher in India than it is. Not only has the LFPR for women been low, and constant, but it is also possible that the jobs that the women are obtaining are marginal jobs and or unpaid family jobs and the fact that women receive substantially lower wages than men.

Two possible reasons for this disparity in wages are discrimination per se, and occupational choice by women into lower paying jobs e.g. clerical versus production. In most

of the comparator countries, female education is approximately the same as men, and often is higher. In India, however, gender discrimination occurs even before a woman enters into the labour force. It happens at birth when sex-selection technology is employed to ensure fewer female births. This discrimination then continues into the education space – girls obtain fewer years of schooling than boys, and/or lower quality education. And since education is an important determinant of wages, women obtain less income than men, a third factor. So unlike a comparator country, the sex wage gap in India is caused at least in part by less education of women. How much is a matter of empirical determination? Finally, there is a fourth factor at work – women typically have less work experience than men and therefore obtain lower wage.

5.3 Factor determining female labour force participation rate:

Women's work participation rate in general has been declining over the decades. The decline has occurred due to several factors:

- Absence of comprehensive and rational policy for women's emancipation through education, training and access to resources such as land, credit and technology etc.
- The perception of male as the breadwinner of the family despite the fact that in low income household's women's income is crucial for sustenance. This perception adversely affects women's education & training. Employers also visualize women workers as supplementary workers & also cash in on this perception to achieve their capitalistic motives by keeping the wage low for women.
- Structural changes in the economy e.g decline in traditional rural industries or industrialization.
- Lack of assets (land, house) in their own name in order to have access to credit and self-employment opportunities
- Huge demand of time and energy of women for various tasks at home like child bearing and rearing etc in addition to participation in labour force leave them with little time for education, training and self-development
- Division of labour based on the gender between men and women & technological advancements work against women. They are the last to be hired and first to be sacked.
- Govt. programs to increase employment and productivity are focused more on men & women are seen as beneficiaries rather than active participants

Education & Economic independence of women & awareness amongst the masses are the most important weapons to eradicate this inhumane behavior of the society towards the female sex. We are slowly but steadily heading towards an era of changing.

5.4 Jobless growth of India

Liberalization, privatization and globalization unlocked the vast potential of Indian economy in 1991. It ushered in a knowledge economy based on competitiveness, innovations and technology. As a result, productivity increased many fold. However, jobs in manufacturing sector declined tremendously. The economists and policy makers thought that the impact of job losses in manufacturing sector may be offset by mushrooming service sector. However, service sector had its own limitations –low paying jobs, requirement of special skills and knowledge of English language competency. Thus, large number of workers, who lost their jobs in the manufacturing sector thanks to automation, technological advancement and right-sizing policies of the companies to remain competitive by cutting cost, could not find alternative employment.

5.4.1 Meaning of jobless growth

Economy is doing fairly well if we take the GDP as an indicator. However, there is no concomitant expansion of employment opportunities for the people which are a natural corollary of the economic growth and prosperity. Lack of job opportunities is further compounded by job losses on account of technological advancement, automation, consolidation and rightsizing.

5.5 Labour in informal sector:

The informal sector plays a central role in economic development of all the countries. Particularly, developing countries one third of national income comes from this informal sector only. The informal sector reduces the unemployment problems. The entrepreneurs are in this sector for their livelihood, not for making more profit. Some informal entrepreneurs are earning more than the formal employees in our country, like vegetable vendors, agents, brokers, foot-path traders etc. Majority of the entrepreneurs are community based in this sector. In India, each community has their own business. Rural, urban and city side also community based entrepreneurs are more. For example, foot wears and beauty parlour etc. The informal sector develops the Indian economy invisibly. Most of the rural and urban people are continuing their family business, because of lack of employment opportunity, In India most of the family businesses are in the informal sector. The earned income from this sector has utilized for the purpose of their children education, family commitments, personal

savings, etc. So the government should take necessary steps to convert this sector into formal.

The informal sector, informal economy, or grey economy is the part of an economy that is neither taxed, nor monitored by any form of government. Unlike the formal economy, activities of the informal economy are not included in the gross national product (GNP) and gross domestic product (GDP) of a country. The informal sector can be described as a grey in labour market. Other concepts which can be characterized as informal sector can include the black market (shadow economy, underground economy). The informal economy refers to activities and income that are partially or fully outside government regulation, taxation, and observation. The main attraction of the undeclared economy is financial. This type of activity allows employers, paid employees, and the self-employed to increase their take-home earnings or reduce their costs by evading taxation and social contributions. On the one hand, informal employment can provide a cushion for workers who cannot find a job in the formal sector. But, on the other hand, it entails a loss in budget revenues by reducing taxes and social security contributions paid and therefore the availability of funds to improve infrastructure and other public goods and services. It invariably leads to a high tax burden on registered labor. A high level of informality also can undermine the rule of law and governance. The fact that a large share of the population is openly ignoring laws, regulations and taxes can weaken the respect citizens have for the state.

The Indian Scenario:

The Indian Economy is characterized by the existence of a vast majority of informal or unorganized labour employment. As per the Economic Survey 2007-08, 93% of India's workforce include the self-employed and employed in unorganized sector. The Ministry of Labour, Government of India, has categorized the unorganized labour force under four groups in terms of Occupation, nature of employment, specially distressed categories and service categories.

1. **In Terms of Occupation**

Small and marginal farmers, landless agricultural labourers, share croppers, fishermen, those engaged in animal husbandry, beedi rolling, labeling and packing, building and construction workers, leather workers, weavers, artisans, salt workers, workers in brick kilns and stone quarries, workers in saw mills, oil mills etc. come under this category.

2. **In Terms of Nature of Employment**

Attached agricultural labourers, bonded labourers, migrant workers, contract and casual labourers come under this.

3. In Terms of Specially Distressed Categories

Toddy tappers, Scavengers, Carriers of head loads, Drivers of animal driven vehicles, Loaders and unloaders come under this category.

4. In Terms of Service Categories

Midwives, Domestic workers, Fishermen and women, Barbers, Vegetable and fruit vendors, Newspaper vendors etc. belong to this category.

In addition to these four categories, there exists a large section of unorganized labour force such as cobblers, Hamals, Handicraft artisans, Handloom weavers, Lady tailors, Physically handicapped self-employed persons, Rikshaw pullers, Auto drivers, Sericulture workers, Carpenters, Tannery workers, Power loom workers and Urban poor. Though the availability of statistical information on intensity and accuracy vary significantly, the extent of unorganized workers is significantly high among agricultural workers, building and other construction workers and among home based workers.

5.5.1 The Major Characteristics of the Unorganized Workers

1. The unorganized labour is overwhelming in terms of its number range and therefore they are omnipresent throughout India.
2. As the unorganized sector suffers from cycles of excessive seasonality of employment, majority of the unorganized workers does not have stable durable avenues of employment. Even those who appear to be visibly employed are not gainfully and substantially employed, indicating the existence of disguised unemployment.
3. The workplace is scattered and fragmented.
4. There is no formal employer – employee relationship.
5. In rural areas, the unorganized labour force is highly stratified on caste and community considerations. In urban areas while such considerations are much less, it cannot be said that it is altogether absent as the bulk of the unorganized workers in urban areas are basically migrant workers from rural areas.
6. Workers in the unorganized sector are usually subject to indebtedness and bondage as their meagre income cannot meet with their livelihood needs.
7. The unorganized workers are subject to exploitation significantly by the rest of the society. They receive poor working conditions especially wages much below that in the formal sector, even for closely comparable jobs, ie, where labour productivity are no different. The work status is of inferior quality of work and inferior terms of employment, both remuneration and employment.

8. Primitive production technologies and feudal production relations are rampant in the unorganized sector, and they do not permit or encourage the workmen to imbibe and assimilate higher technologies and better production relations. Large scale ignorance and illiteracy and limited exposure to the outside world are also responsible for such poor absorption.
9. The unorganized workers do not receive sufficient attention from the trade unions.
10. Inadequate and ineffective labour laws and standards relating to the unorganized sector.
11. Heterogeneity in activities;
12. Easier entry and exit than in the formal sector;
13. Usually minimal capital investment; little or no division between labour and capital;
14. Mostly labour intensive work, requiring low-level skills; there is usually no formal training as workers learn on the job;
15. Labour relations based on casual employment and or social relationships as opposed to formal contracts; employer and employee relationship is often unwritten and informal with little or no rights;
16. Due to their isolation and invisibility, workers in the informal sector are often largely unaware of their rights, cannot organise them and have little negotiating power with their employers and intermediaries (ILO 2000).

5.6 India's Graphic Transition:

5.6.1 The Theory of Demographic Transition:

The process by which fertility rates eventually decline to low and stable levels has been called demographic transition. Fertility rate is defined as the average number of children per women in the reproductive age group. Demographic transition postulates three stage sequences of birth and death rates which are associated with economic development. It explains phasing out process of population growth rates starting from virtually stagnant growth stage characterised by high birth and death rates through a rapid-growth stage with high birth and low death rates to stable, low growth stage in which both birth and death rates are low. This demographic transition has been witnessed in contemporary developed nations as they developed and one can identify the developing nations as they move through the different stages of this transition. The issue is what explains this transition or what are the factors that contribute to it.

First Stage of Demographic Transition

In this stage the death rates are high due to absence of effective medical aid, primitive sanitation, and poor diets. The birth rates are also high on account of absence of knowledge about family planning techniques, early age of marriage, illiteracy and deep-rooted social beliefs, and customs about the size of the family including, as an insurance against high child mortality rates. The actual rate of growth of population is low since high birth rate is balanced by high death rate.

Second Stage of Demographic Transition

With economic development resulting in high incomes, improvement in public health facilities there is a marked decline in mortality that raises life expectancy from under 40 years to 60 years. However, the decline in death rate is not immediately accompanied by decline in fertility. In this stage of demographic transition, with declining death rate, birth rate does not fall correspondingly. This leads to transition from stable or slow growing population to rapidly increasing population.

Third Stage of Demographic Transition

The forces and influences of modernisation (including increase in female work participation rate and move towards nuclear families) and economic development causes fertility rate to decline so that falling birth rate eventually converges with the death rate leaving little or no population growth. The characteristics of the third stage are low birth rate, low death rate, small family size and low growth rate of population.

5.7 Demographic Profile of India

5.7.1 Size and Growth Rate of Population in India

The study of India's demography is essential to understand the dynamics of economic development and economic welfare. Theory of demographic transition helps to understand and analyse the change in the magnitude of population.

India has around 2.4 per cent of the total land area of the world and approximately 17 per cent of the world population residing in this country. In 2011 the population of India was 1210 million, making it the second largest in the world. Area-wise, India is at the seventh position in the world.

India's Demographic Phases: A study of growth rate of India's population can be categorised into four phases;

Phase I: 1891-1921(Stagnant Population) During the first phase of 30 years India's population grew from 236 million in 1891 to 251 million in 1921. High birth rate was neutralised by high death rate that ensured that population growth was stable during this period. Population increased by 15 million only and the compound annual growth rate was just 0.19 per cent per year. India's first stage of demographic transition was marked by stagnant population.

Phase II: 1921-1951(Steady Growth) During the second phase of demographic transition population grew from 251 million in 1921 to 361 million in 1951. The population grew by 110 million with compound growth rate of 1.22 per cent per year. The death rate during this period decreased from 47 per thousand to 27 per thousand. The fall in death rate was mainly due to control of widespread epidemics like plague, smallpox, cholera etc. that took heavy toll of human lives. From 1921 onwards India entered the second phase of demographic transition marked by steady but low growth rate of population.

Phase III: 1951-1981(Rapid Growth) During the third phase of 30 years India's population grew from 361 million in 1951 to 683 million in 1981. There was a record growth of population by 322 million with compound annual growth rate of 1.22 per cent per annum. With the beginning of planning, the extension of hospitals and medical facilities was under taken on a large scale. This resulted in sharp decline in death rate to 15 per thousand, but the birth rate did not fall at the same pace. It fell from 40 to 37 per thousand and this led to population explosion during this period. A steep rise in population growth rate (over 2 per cent) was due to a steep fall in the mortality rate accompanied by high fertility rate.

Phase IV: 1981-2011 (High growth with definite signs of slowing down) India entered the fourth phase of demographic transition marked by high population growth with definite sign of slowing down. Total population increased from 683 million in 1981 to 1210 million in 2011 indicating an increase of 77.2 per cent during the 30 years' period. The compound annual growth rate of population reduced from 2.14 per cent (1991-2001) to 1.64 per cent (2001-2011). Most Indian states such as Kerala, Tamil Nadu, Andhra Pradesh, West Bengal, Punjab, Himachal Pradesh, Gujarat and Assam have recorded low birth rates during this phase. States like Madhya Pradesh, Uttar Pradesh, Bihar and Rajasthan will take some more years for complete implementation of family planning programme.

Check Your Progress

Q. No.	Short Question	CO	PO	Level
1	What is meant by the gender gap in India?	CO1	PO1	K1
2	Define Female Labour Force Participation Rate (FLFPR).	CO1	PO1	K1
3	What is meant by jobless growth?	CO2	PO2	K2
4	State any two characteristics of labour in the informal sector in India.	CO3	PO2	K1
5	What is demographic transition?	CO4	PO1	K1

Q. No.	Essay Type Question	CO	PO	Level
1	Analyse the nature of the gender gap in India and examine recent trends in female labour force participation rates.	CO1	PO2	K4
2	Examine the major economic, social, and demographic factors determining female labour force participation in India.	CO1	PO3	K4
3	Discuss the changing nature of employment in India with special reference to the phenomenon of jobless growth.	CO2	PO3	K4
4	Evaluate the conditions of labour in the informal sector in India and discuss the challenges faced by informal workers.	CO3	PO4	K5
5	Analyse India's demographic transition and assess its implications for employment and economic growth.	CO4	PO4	K4

References:

Journal References

1. Chakravarty, Sukhamoy (1987), Development Planning; The Indian Experience, Clarendon Press, 1987
2. Dhar, PN (1990), Constraints on Growth: Reflections on the Indian Experience, Fourth VT Krishnanmachari Memorial Lecture, 1989, delivered at the Institute of Economic Growth, Oxford University Press, 1990.
3. Bhagwati, Jagdish (1993), India in Transition: Freeing the Economy, Clarendon Press.
4. Williamson, J., 1997. The Washington consensus revisited. In: Emmerij, L. (Ed.), Economic and social development into the XXIst century. Inter-American Development Bank, Washington, DC
5. Sundaram KPM., (2002) Indian Economy., S.Chand Publication
6. Stern, N., Stiglitz, J.E., 1997. A framework for a development strategy in a market economy: objectives, scope, institutions and instruments. EBRD Working Paper 20. European Bank for Reconstruction and Development, London, April.
7. Rodrik, Dani and A. Subramanian. 2005. 'From Hindu Growth to Productivity Surge: The Mystery of the Indian Growth Transition', IMF Staff Papers, 52(2): 193–228.
8. Balakrishnan, Pulapare, and M. Parameswaran. 2007. 'Understanding Economic Growth in India: A Prerequisite', Economic and Political Weekly, 42(27–8): 2915–22.
9. Hamilton, James. 1994. Time Series Analysis, Princeton University Press.

Text Books:

1. Sundaram K P M.,(2002),Indian Economy , 42 revised edition., S.Chand Publications
2. Misra,S, &Puri, V.,(2020.), Indian Economy, Revised Edition., S.Chand Publications

Reference Books:

1. KaushikBasu (Ed.) (2012), Oxford Companion to Indian Economy, 3rd Edition, OUP, New Delhi.
2. Uma Kapila (Ed.) (2018), Indian Economy since Independence, Academic Foundation, New Delhi, 29th Edition.
3. AshimaGoyal (Ed.) The Oxford Handbook of the Indian Economy in the 21st Century: Understanding the Inherent Dynamism, Oxford University Press.

Web References:

1. https://www.adb.org/countries/india/economy
2. https://www.oecd.org/economy/india-economic-snapshot/
3. https://www.indiabudget.gov.in/economicsurvey/

Course Outcomes (Cos):

Upon Completion of this course, the Students will be able to

No.	Course Outcomes	K-Levels
CO1	Understand the Structural change in Indian economy	K_1, K_2, K_3, K_4
CO2	Assess the Performance of agricultural and Industrial sector	K_1, K_2, K_3, K_4
CO3	Ability to learn the trends in the economy	K_1, K_2, K_3, K_4, K
CO4	Understand the Impact of Poverty	K_1, K_2, K_3, K_4
CO5	Identify Social Issues like Unemployment, Gender disparities	K_1, K_2, K_3, K_4

K_1 – Knowledge, K_2 - Understand, K_3 – Apply, K_4 – Analyse, K_5 – Evaluate, K_6 – Create.

CO-PO Mapping (Course Articulation Matrix)

CO /PO	PSO1	PSO2	PSO3	PSO4	PSO5
CO1	3	3	3	3	3
CO2	3	3	3	3	3
CO3	3	3	3	3	3
CO4	3	3	3	2	3
CO5	3	3	3	2	3
Weightage	15	15	15	13	15
Weighted percentage of Course Contribution to Pos	3	3	3	3	3

Level of Correlation between PSO's and CO's

(Suggested by UGC as per Six Sigma Tool – Cause and Effect Matrix)

Assign the value

1 – Low,2 – Medium, 3 – High,0 – No Correlation