DETAILED SYLLABUS

Course No. ECO 204 **Title : Indian Economic Policy**
Credits : 6 **Maximum Marks : 100**
a) Major Examination : 80

Duration of Major Examination - 3:00 hrs

INDIAN ECONOMIC POLICY

Syllabus for examination to be held in May 2019 to May 2021

Preamble : This paper is designed to acquaint the students in a comprehensive manner with different aspects of Indian economy. The policy issues and measure to understand economic initiatives for improving economic development and growth, agriculture and industry, planning of the different sectors of the economy and the place of Indian economy in the international level particularly after economic reforms and covered. This will sharpen the analytical faculty of the students to understand the whole system of Economic Policy in India.

UNIT - I : Economic Development and Growth Policies

Economic Development & Social Opportunity - Development, Freedom and Opportunity on education & health, the government, the state & the market; Human Development - Essential Components of Human development; Indexing Human Development in India - indicators, scaling and composition; Recasting Planning in terms of Human Development; Indian Political Economy (1980-2010) and Inclusive Growth, Poverty in India - estimates and methodological controversies; Human Poverty, entitlement, capability approach; Public Action and Social Inequality - public, its role, reach of inequalities, Social inequalities and economic reforms, basic equality and social security and Health care, local goverance & social reforms.

UNIT - II : Agriculture and Industrial Sectors of the Indian economy :

Agriculture Growth and Industrial Performance in Indian - salient features of industrial and agriculture growth, links between agriculture and industry - production linkages, demand linkages, savings & investment linkages; Planning for Agriculture - 21st Century perspective, Indian agriculture - emerging perspectives and policy issues; Land System and its reforms in India - land reforms progress in post independent India. Impact of Structural Reorganization, emerging perspectives & Policy Issues; Critical appraisal of Food Security Policy; Water Resource Development Strategy for Accelerating Agriculture Production in India; Terms of Trade Between Agriculture and Industry : Industrial growth in 80's - some issues; Government Policy Towards Public Sector Since 1991; Paradigm shift in Industrial Policy; Jobless Growth in Indian manufacturing in 2000s.

UNIT - III : Indian Planning

Objectives & strategy of Planning in India; Regional Planning Policy in India - regional imbalances in India and policy measures to remove regional imbalances, critical review of Regional Planning in India; Economic Growth and Social Attainment - the role of Development Strategy; Gender Responsive Budgeting and Gender Equity; Federal Finances - responsibilities and resources, division of functions, resource raising powers, transfer of resources through Twelfth and Thirteen finance Commission; Parallel Economy - causes and remedies, current status of the Black Money - Graying of India's Political economy.

UNIT - IV : Economic Reforms & External Sector

Growth & Macro Economic Imbalances in India-linkages between growth & fiscal & external balances, trends in fiscal & external deficits; Critical Appraisal of Economic Reforms; WTO - Uruguay Round of Final Act & its Implication for India, Impact of WTO on various aspects of Indian Economy, India's Role at Doha Ministerial Conference, Geneva Frame Work and update on Trade Negotiations; Foreign Trade Policy - Import - Export Policy in pre-reform period, New Trade Policy - The Reform Period, Foreign Trade Policy 2009-14; FDI in Multi-brand Trade & Safe Guards.

Note for Paper Setting : Minor Test - I and Minor Test - II each of 20 marks from Unit - I and Unit - II respectively with multiple choice questions (5 Marks) and two medium answer type questions (15 Marks : 7½ Marks each). Major Test of 60 Marks consisting of multiple choice questions of 10 Marks (5 marks each from Unit - III and IV) and four short answer type questions (30 Marks each with 100% internal choice (20 marks) and two long answer type questions (30 marks : 15 Marks each) from Unit - III and IV with 100% internal choice be asked.

Basic Reading List

1. Bardhan, Pranab (1994) : The Political Economy of Development in India; Oxford University Press, New Delhi
2. C.T. Kurian (1978) : Poverty Planning and Social Transformation - An Alternative in Development Planning Allied Publishers, New Delhi
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11. Amartya Sen, Poverty and Famine - An Essay on Entitlement and Deprivation Oxford University Press. New Delhi, 1982.
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29. Joshi, V. and L.M.D. Little (1999) India; Macro Economics and Political Economy, 1964-1991, Oxford University Press, New Delhi

30. Parikh, K. S. (1999), India Development Report - 1999-2000, Oxford University Press, New Delhi

31. Sen, R. K. and B. Chatterjee (2002), Indian Economy : Agenda for 21st Century (Essays in honour of Prof. P. R. Brahmananda), Deep & Deep Publications, New Delhi.

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CONTENTS

M.A. ECONOMICS LESSON NO. 1

COURSE NO. ECO 204 SEMESTER-IV UNIT-I

ECONOMIC DEVELOPMENT & SOCIAL OPPORTUNITY

Structure

1.1 OBJECTIVES

After going through this lesson, you will be able to

- Understand the meaning of Economic Development
- Development, freedom and opportunity

1.2 INTRODUCTION

Meaning of Economic Development : Economic development means more output and changes in the technical and institutional arrangement. Till the 1960s, the term 'economic development' was often used as a synonym of 'ecomomic growth' in economic literature. Now economists prefer to treat economic development as a distinct concept. Kindleberger and Herrick argued, "Economic development is generally defined to include the improvements in material welfare, especially for persons with lowest incomes, the eradication of mass poverty with its corretates of illiteracy, disease and early death, changes in the composition of inputs and outputs that generally include shifts in the underlying structure of production away from agricultural towards industrial activities, the organisation of the economy in such a way that productive employment is general among the working age population rather than the situation of a privilege of minority; and the correspondingly greater participation of broadly based groups in making decisions about the directions, economic and otherwise, in which they should move to improve their welfare."

Dudley seers posed the basic questions about the meaning of development in the right perspective when he asserted, "The questions to ask about a country's development are therefore : What has been happening to unemployment ? What has been happening to inequality ? If all three of these hae declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse especially if all three have, it would be strange to call the result 'development' even if per capita income doubted."

Economic development is thus a process with noble ideals and backward countries without exception are endeavouring to make it successful. This characterisation of development with lofty goals is certainly very attractive; at the same time realisation of these objectives has been found a really difficult task.

1.3 DEVELOPMENT, FREEDOM AND OPPORTUNITIES

When the subject of development economics emerged as a distinct field of study, shortly after the second world war, it appeared to be something of a bastard child of growth economics. Some influence other than growth economics was clearly involved in the origin of development economics, but it was not altogether clear what form this influence had taken. In one respect at least, the offspring did not differ from what could be expected from a genuine 'son of growth economics', namely an overarching preoccupation with the growth of real income per head.

Ian Little reflected this understanding very well in his depiction of 'development economics' (in The Fontana Dictionary of Modern thought) as a field that 'in a broad sense comprises all work on the growth of incomes per head, including that of the classical economic theorists from smith to Mill. Thus the development of economics here is uncompromisingly on the growth of incomes. However, while the two classical authors cited by Little, namely Smith and Mill, did indeed write a great deal on the growth of real income per head, they saw income as one of several different means to important ends, and they discussed extensively the nature of these ends very different as they are from income.

These classical authors were deeply concerned with the recognition that we have reasons to value many things other than income and wealth, which relate to the real opportunities to lead the kind of life we would value living. In the writings of Smith, Mill, and other classical political economists, there is much interest in the foundational importance of our ability to do the things we value so that they saw the freedom to lead valuable lives as intrinsically important—not merely instrumentally so. They did comment fairly excessively on the connection between these matters, on the one hand, and income, wealth, and other economic circumstances, on the other, and they had much to say on economic policies that promote the more basic ends. Neither Smith nor Mill would have had any quarrel with taking a much broader view of the changes that are involved in the process of economic development –even with putting into that category Nehru's list of things to do.

In recent years, the profession of development economics has also moved increasingly in that direction, taking a much more inclusive view of the nature of economic development. One way of seeing development is in terms of the expansion of the real freedoms that the citizens enjoy to pursue the objectives they have reason to value and in this sense the expansion of human capability can be, broadly seen as the central feature of the process of development.

The 'capability' of a person is a concept that has distinctly totalian roots. The life of a person can be seen as a sequence things the person does, or states of being he or she achieves, and these constitute a collection of 'functioning'—doings and being the person achieves. 'Capability' refers to the alternative combinations of functioning's from which a person can choose. Thus, the notion capability is essentially one of freedom the range of options a person has in deciding what kind of a life to lead poverty of a life this view, lies not merely in the impoverished state in which the person actually lives, but also in the lack of rear opportunity –given social constrain as well as personal circumstances to choose other types of living. Even the relevance of low incomes, meager possessions, and other aspects of what are standard seen as economics poverty relates ultimately to their role in curtailing capabilities (that their role in severely restricting the choices people have to lead able and valued lives). Poverty is, thus, ultimately a matter of 'capability deprivation', and note has to be taken of that basic connection not just at the conceptual level, but also in economic investigations and in social or political analyses. This broader and more foundational view of poverty has to be kept in view while contracting, as we often would in this monograph, on the deprivation of such basic capabilities as the freedom to lead normal spans of life (undiminished by premature mortality), or the freedom to read or write (without being constrained by illiteracy). While the term 'poverty' will typically not be explicitly invoked in such contexts, the underlying concern is one of deprivation and impoverished lives. Even when we focus on economic poverty in the more conventional sense (in the form of insufficient incomes) the basic motivation will be its relevance as a substantial influence on capability deprivation.

The basic objective of development as the expansion of human capabilities was never completely overlooked in the modern development literature, but the focus has been mainly on the generation of economic growth, in the sense of expanding gross national product and related variables. The expansion of human capabilities can clearly be enhanced by economic growth (even in the limited sense of growth of real income per head), but (1) there are many influences other than economic growth that work in that direction, and (2) the impact of economic growth on human capabilities can be extremely variable, depending on the nature of that growth (for example, how employment-intensive it is, and whether the economic grains from growth are channeled into remedying the deprivations of the most needy).

What is crucial in all this is the need to judge the different policies ultimately, by their impact on the enhancement of the capabilities that the citizens enjoy (whether or not this comes about the growth of real incomes). This differs sharply from the more standard practice of judging economic policies by their contribution to the growth of real incomes –seen as a merit in itself. To dispute that practice must not be seen as an invitation to ignore the important instrumental role of economic growth in enhancing basic such as human capabilities; it is mainly a matter of being cleat about ends and means.

The recent attempts, in India and elsewhere, to open up market opportunities without being thwarted by bureaucratic barriers has been justified primarily in terms of the expected impact of this changes on economic expansion, enhancing outputs and incomes economy. To quote the semi-official and distinctly authoritative reports were by Bhagwati and Srinivasan (1993), 'these structural reforms were necessary because we had evidently failed to generate adequate rates of growth of income and of per capita income'. This is indeed a significant direction of causal analysis. On the other side, the justification for focusing on outputs and incomes lies ultimately in the impact that their augmentation may have on the freedoms that people actually enjoy to lead the kind of lives they have reason to value. The analysis of economic development must take note of both the causal connections, and also of other policies and in situational changes that contribute to the enhancement of human capabilities. The success of development programmes cannot be judged merely in terms of their effects on incomes and output, and must at a basic level, focuses on the lives that people can lead. This applies as much to the assessment of economic reforms and current economic policies in Indian today as it does to evaluations of development programmes anywhere else in the world.

1.4 ON EDUCATION AND HEALTH

Important has to be attached to the distinct influences that promote or constrain the freedoms that individuals have, including their ability to make use of economics opportunities, education and health can be important 'promoting' factors. The role of these so called social variables in the fostering of economic progress has recently received much attention in the development literature. But, of course, the subject is of some antiquity, and classical political economists such as Smith or Turgot or Condorcet or Mill or Marx would have seen the recognition of this role as quite non-controversial.

The remarkable neglect of elementary education in India is all the more striking given the widespread recognition, in the contemporary would, of the important of the basic education for economic development. Somehow the educational aspects of economic development have persisted despite the recent radical changes in economic policy. Similar remark apply to health care. Even Bhagwati and Srinivasan's (1993) lucid discussion of the challenge of economic reforms is entirely silent on the subject of education and health and their possible roles in promoting the use of the economic opportunities that may be created by the reforms. Their discussion of the problem of infrastructure fine enough as far as it goes –is confined effectively to transport and power generation. An opportunity is missed here to question an old imbalance in Indian planning effort. The issue relates to the tendency, the economic reform as standing on their own, without linking the case for reform inter alia to the failure in social policies (demanding radical changes in social programmes, particularly basic education, along with more narrowly economic changes).

Education and health can be seen to be valuable to the freedom of a person to at least five distinct ways.

1. **Intrinsic importance:** Beings educated and healthy are valuable achievements in themselves, and the opportunity to have them can be of direct importance to a person's effective freedom.

2. **Instrumental personal roles:** A person's education and health can help him or her to do many things other than just being educated and healthy-that are also valuable. They can, for instance, be important for getting a job and more generally for making use of economic opportunities. The resulting expansion in incomes and economic means can, in turn, add to a person's freedom to achieve functioning's that he or she values.

3. **Instrumental social roles:** Greater literacy and basic education can facilitate public discussion of social needs and encourage informed collective demands e.g. for health care and social security in turn can help expand the facilities that the public enjoys, and contribute to the better utilization of the available service.

4. **Instrumental process roles:** The process of schooling can have benefits even aside from its explicitly aimed objectives, namely formal education. For example, the incidence of child labour is intimately connected with non-schooling of children, and the expansion schooling can reduce the distressing phenomenon of child labour so prevalent in India. Schooling also brings young people in touch with others and thereby broadens their horizons, and this can be particularly

important for young girls.

5. **Empowerment and distributive roles:** Greater literacy and educational and achievements of disadvantaged groups can increase their ability to resist oppression, to organize politically, and to get a fairer deal. The redistributive effects can be important not only between different groups or households, but also within the family, since there is evidence that better education (particularly female education) contributes to the reduction of gender based inequalities.

These influences need not work only for the person, who receives education or health care. There are also interpersonal effects. For example one person's educational ability can be of use to another (e.g. to get a pamphlet read, or to have a public announcement explained). The interpersonal connections can be of political significance as well; for example, a community. May be benefits generally form the civic attention it receives through the educated activism particular group with that community. Also, the use of economic unity by one person can, in many circumstances, open up further opportunities for others, through backward and forward linkages in supply and demand. "It is hard to evaluate the contributions of education except through a broad 'social choice approach. There are similar interconnections in matters of health because of the obvious important of externalities in morbidity, preventive care, and curative treatment. Expansion of health and education can have influence that go beyond the immediate personal effects.

Through these various interconnections, education and health can be variables of great strategic importance in the process of economic development. India failure to have an actuate public policy in educational and health matters can be, thus, of profound significance in assessing the limited success of Indian development effort over the last half a century. A policy reform that concentrates just on liberalization and deregulation cannot deal with this part of the failure of past panning.

The removal of counterproductive government controls may indeed expand social opportunities for many people. However, to change the circumstances (such as illiteracy and ill health) that severely constrain the actual social opportunities of a large part of the population, these permissive reforms have to be supplemented by a radical shift in public policy in education and health. If we see economy development in the perspective of social opportunities in general, both for their intrinsic importance and for their instrumental value, we cannot afford to miss this crucial linkage.

1.5 THE GOVERNMENT, THE STATE AND THE MARKET

The competing virtues of the market mechanism and government action have been much discussed in the literature. But the comparative merits of the two forms of economic decision are so thoroughly context-dependent that it makes little sense to espouse a general prostate or Pro market view. To illustrate the points at the most obvious level, we could note the state or pro market view. To illustrate the point that what level, we could note the simple fact that what a government do, and will in fact do, must depend on the nature of that government. Unfortunately, the history of the modern world is no less full of tales of tyrannies and torture than the medieval chronicles of the barbarity of those times. The terrifying success that the Khmer Rouge had in Cambodia in quickly disposing off a million people on extraordinary ideological grounds is a barbarity of those titles. The terrifying success that this is not a simple had in Cambodia in quickly disposing off a million people on ex-traordinary ideological ground is an obvious example. Idi Amin's Uganda provides an illustration of brutality of another kind –less ideological but not much less vicious. That this is not a simple 'third world' phenomenon is easily illustrated by the enormity of the Nazi atrocities and genocide in twentieth-century Germany. The implicit belief, expressed in some writings, that government intervention are, by and large, guide by the demands of social progress is surely a gigantic folly.

Even when the government's objectives are nor they were in Pol Pot's Cambodia, or in Amin's Uganda, or in Nazi Germany, there is still a question as to who is trying to achieve what through the mechanism of governmental activities. The implicit faith in the goodness and the good sense of the government that underline much reasoning in favour of government led economic development cannot, frequency, stand up to scrutiny.

The distinction between the state and the government may be of some, significance in this context. The state is, in many ways a broader concept, which includes the government, but also the legislature that votes on public rules, the political system that regulates elections, the role that is given to opposition parties, and the basic political right that are upheld by the judiciary. A democratic state makes it that much harder for the ruling government to be unresponsive to the needs and value of the population at large. The nastiness of the khmer Rough governance was sustainable because Pol Pot did not have to face elections or cater to opposition parties, and it is the militarist, undemocratic state that made the genocidal policy of the Khmer Rouge politically feasible. So we have to ask questions not merely about the nature of the actual government in office, but, going beyond that, also about the nature of the state of which the ruling government is only one part.

There is a similar question about the context-dependence of the role of the market mechanism as well. What kinds of markets are we taking mechanism as well. What kinds of market are we talking about? Most of the theory of efficiency or effectiveness of the market mechanism relates to competitive market in equilibrium. It is not unreasonable to assume that small violently (some kind of Leibnizian belif in the continuity of nature is clearly involved in this implicit faith), but actual markets can take very different forms indeed. For example, the cornering by a few operators of goods in short supply –leading to a massive accentuation of shortage and suffering—has happened too often to be dismissed as imaginary nightmares. The recent history of Asia and Africa provides plentiful examples of market exchanges being used to make profits out of the miseries of millions. There are also case where the market the market manages to misjudge the extent of a shortage quite badly, and causes suffering—even chaos as a result, without this being the result of much wilful manipulation

This happened, for example, in the Bangladesh famine of 1974, when misguided speculation on the part of traders contributed to an enormous hiking of rice prices, followed later by a sharp fall towards pre-hike prices (meanwhile the famine had taken its toll).

The contrast between market-based and government-based economic decisions, thus, requires a clearer understanding of the nature of the markets and the governments involved. These are not, of course, all-or-none questions. There are variations in market forms, in the extent of competition in the openness of entry, in the actual scope for manipulability' and so on. And there are diversities in the nature of government depending on the political system underlying the state, the legal system that sustains political freedom the power of ruling political groups, the treatment of opposition and dissent, and so on. The assessment of the respective merits of market-based decisions and governmental policies, cannot but be thoroughly dependent on the reading of the markets and of the governments involved.

Interdependence between Markets and Governance

In assessing the relative merits of the market and the government, note has to be taken of their thoroughgoing interdependence. In particular, the operation and successes of the market mechanism can to deeply influenced by the nature of government actions that go with it. This is so for various reasons –some more obvious than others.

First, it is fairly straight forward to recognize that market can hardly function in the absence of legal backing of contracts and particular rights. While some of these obligations are carried out (and business ethics can play an important part in the fulfillment of contractual market exchanges), the possibility of legal action in the absence of such compliance is an important background condition for the smooth operation of systems of exchange and production. It is not surprising that the development of the market mechanism during the industrial revolution in Europe closely followed the establishment of law and order that could provide security to business and economic operations. To take a different type of example, it is impossible to understand why the market mechanism is so weak in, contemporary Somalia without seeing it in the context of the breakdown of law and order-the form that the comeuppance of the militarist regime has taken in that country. Indeed, the Somalian famine of 1992 was, to a great extent, the result of the breakdown of the market mechanism which it turn had resulted from the break- down of governance.

Second, the government may have a major role in initiating and marketing market-reliant economic growth. This has been studied a great deal in the history of such successful capitalists countries as Germany and Japan. More recently, the role of the government received much attention in interpreting the so-called East Asian Miracle— the tremendous success of the newly industrializing countries in East Asia (in Particular South Korea, Taiwan, Hong Kong, Singapore, and , more recently China and Thialand). This role is easy to understand in the light of economic theory particularly related to difficulties of initiation, connected with such factors as difficulties of tatonnement (pre-exchange negotiations about market prices, leading to simultaneous production decisions), economies of large scale, important of technological externalities, and the integral nature of Skill information. The nurturing of an early market mechanism by an active state does not, of course, preclude a more self-sufficient role of the market later on.

Third, even the formal theory of achievements of the market mechanism is, implicitly, much dependent on government action. Consider the so-called fundamental theorems of welfare economics.

The first theorem, which shows that-given some standard condition-any competitive equilibrium is Pareto efficient, is thought to be less interesting than the second, since a Pareto efficient allocation can be terribly unequal and thoroughly revolting. The second theorem on the other hand, shows that under some-rather more stringent assumptions (including the absence of significant economist economies of large scale), any Pareto efficient allocation is a competitive equilibrium for some set of prices and some initial distribution of resource. If Pareto efficiency is regarded as a necessary condition for overall social optimality, this entails that a socially optimum allocation can be –given the assumed framework –sustained through a competitive equilibrium, provided the initial distribution of resources is appropriately fixed.

The question is who would fix the initial distribution of resource in this way? Here again, the agency of the government would generally be required. That, the significance of the so-called fundamental theorem of welfare economics is deeply dependent on governmental action. There may be good reasons for scepticism regarding political scope, in many societies, for redistributing initial endowment in this way-certainly, to the extent that would be needed for social optimality with an equity-sensitive social welfare function. But what can be made achievable by the market in the direction (via the second theorem) would be conditional on appropriate governmental activism.

The interdependence between market and government works, in fact, in the other direction also. It is hard to think of a government achieving anything like an acceptable social arrangement if citizens are prohibited from exchanging commodities, or producing goods and services on their own initiative. These activities actions and compacts –from integral part of the market mechanism, no matter how rudimentary that mechanism might be.

The recent developments in economic theory that have stressed the importance of economics of large scale, and of endogenous growth have done much to clarify, the role of markets and trade. Indeed as Adam Smith (1776) had argued, markets provide great opportunities for acquiring benefits from trade based on specialization and division of labour and the recent departures in growth theory and trade theory have involved what Buchanan and Yoon (1994) have aptly called the return to increase return.

This line of analysis has also brought the extern to which the pattern of international division of labour is not given simply by nature blessings and comparative advantages, but is also substantially influenced by the actual history of past experiences and specializations. Thus public policy can have a lasting role in the way the markets are used. The issue of interdependence is, indeed of even greater significant than a history-free analysis might suggest, while market must be, in this analysis, an essential vehicle of realizing economic potentials, the long-run influence of active public, for example, in initiating particular industries and in providing a wide base of public education (as occurred, say, in Japan or South Korea) can be more easily interpreted and understood in this light.

The wide interdependences and understood discussed here call for a clearer understanding of the relation between government policy and market operations. In particular, it is quite important to distinguish between market-excluding and market-complementary government interventions.

Market-excluding and market-complementary intervention

Market-excluding and failures of any social arrangement involve both commission (what it does) and omission (what it fails to do). The markets do certain thing, and abstain from doing others. A failure can arise from either positively doing something that would have harmful consequences, or from not doing something that would have to be done for good results. To illustrate from a different field of ethical judgment, murdering would be an example of harmful commission, whereas failing to stop a preventable murder would be a case of omission.

The market, like other institutions, does certain things, and abstains from doing others there is real asymmetry here which is hidden by unclear contrasts between the market mechanism and 'non-market' systems. An economic arrangement can be 'non-market' in the sense that markets are not allowed to operate freely or even to operate freely or even to operate at all. This can be called a 'market-excluding' arrangement. Or it can be 'non-market' in the sense that many things are done, say by the state, that the market would nor do. Such supplementary operations do not have to prohibit markets and exchanges. This can be called a 'market-complementary' arrangement.

Obviously, it is possible for a system to have a mixture of market-excluding and market-complementary interventions. The respective implications of the two types of 'non-market' arrangement be very different indeed. The name of the issue can be usefully illustrated with concrete examples from a particular area of con-temporary concern, namely the terrible phenomenon of famine, continues to plague the modern world. Famines have, of course occurred in non-market socialist economies as well as in market-based systems. But looking for the moment at famines in market economics, we can ask: why has the market system not been able to avoid them?

It has often been argued that the markets can and do distort food trade. Certainly, examples of markets being manipulated by organized traders are not hard to find. These manipulation have sometimes heightened the suffering and misery associated with famines. On the other hand, it is hard to find evidence to suggest that active trade distortion has been a primary cause of famines in market economies. The most obvious failure of the market mechanism in this context, in the things that the market leaves undone. If some groups lose their purchasing power and their entitlement to food, say, due to employment loss as a result of a drought or food, the market may not do much to regenerate incomes or to recreate their lost command over food. That is an error of omission, which has to be distinguished from the positively bad things that the market might do. The remedy in this case need not be sought in market excluding' interventions.

It is not being argued here that all the problems associated with the market mechanism in the context of a famine are invariably of the 'omission' type, that is, the result of what the markets do not do, rather than of their active presence. The working of the market can positively worsen the situation of particular group of people, by making things worse through its operation. An example is the role of the market in the decimation of pastoralists when the price of animals and animal produces fall in relation to the cost of cheaper staple food, as is common in many famines Pastoralists suffer in this way because their economic existence has come to depend on the way, and this vulnerability is related to dependence on market-exchange.

Even when there is a problem of market-driven commission, however, the threat of famine cannot be eliminated by outlawing the market that is by adopting any general 'market-excluding intervention. Indeed, what is happening in these cases is that the benefits the individuals receive from participating in the market (e.g. by selling labour power and buying food with one's wage, or selling animals products and buying cheap food) can suddenly be severely compromised by changed economic circumstances. The process, thus, worker through a reduction of the advantages of the market transaction –advantage that may be vital for survival, and on which people may have come rely. The process of destitution is sustained by the failure of the market mechanism to provide security of these exchange arrangement and term of trade.

Lack of clarity about the distinction between market-excluding and market-complementary interventions has been responsible for some misanalysis and misinterpretation. For example, Adam Smith's (1776) defense of private trade in foodgrains and criticism of prohibitory restriction by the state have often been interpreted as a proposition that state interference can only make a famine worse. But Smith's defence of private trade took the form of disputing the belief that food trade produce serious errors of commission. That disputation does not deny in any way the need for state action, in tackling a threatening famine, to supplement the operations of the market by creating incomes (e.g. through work programmes) because the market omit to do this. Smith's rejection of markets excluding systems, but not of public intervention for markets complementary arrangement.

Indeed, Smith's famine analysis is consistent with arguing for a discriminatingly activist government that would create income and purchasing power for the disentitled population, and then leave the supply of food to respond to the newly created demand though private trade. There is evidence-both from south and Asia and from sub-Saharan Africa-that this combination of (1) undertaking state action to generate incomes and purchasing power of the famine victims, and (2) letting private markets respond then to those incomes and demands, often works remarkably well in preventing famines. That combination was explicitly discussed by Smith's friends Condorcet, and Smiths own analysis is entirely consistent that route.

Smith did provide a strong defence of the commissioning aspect of the market mechanizing. His famous statement about gains from trade between the butcher, the brewer the baker, on the one hand, and the consumer, on the other, points to the advantage that the market positively produces for all the parties involved in the exchange. It does not deny that if we lack the means to buy meat, beer, or bread, the butcher, the brewer, and the baker won't do much for us.

The distinction between omission and commission is important in understanding the division between the respective role of the market and of non-market institutions in modern economies. In fact, it is possible to argue at the same time both (1) for more market institutions, and (2) for going more beyond the market. Indeed, in the context of the challenges of Indian planning, such a combination may be exactly what is needed. The fact that the form of the Indian political debates was tended to be quite traditional has certainly contributed to confounding the nature issues. The need for more active use of the market in, say, industrial production and trade does not do away with the need for more state activity in raising Indian's abysmal level of basic education, health care, and social security. Similarly, on the other side, the recognition of the latter need does nothing to reduce the important of reforming the over-bureaucratized Indian economy.

The market-complementary arrangement needed to eliminate famines has, on the whole, worked quite well in post-independent Indian. However, the problem of omission remains a central one in the context of the contemporary Indian Economy— not in terms of vulnerability to famine, but the form of regular under undernourishment, widespread literacy, and high rates of morbidity and mortality. These are denials of basic freedom that human being has reasons to value. Furthermore, these deprivation can also be instrumentally significant by severely constraining the opportunity to participate in the process of economic expansions and social changes. In trying to guarantee this freedom, combining the functioning of markets and those of governments can be critically important.

1.6 SUMMARY

In fine economic development refers to that process as a result of which along with increase in per capita income, there is reduction in inequality, povery, illiteracy &

disease. In other words there is improvement in economic welfare of masses & their standard of living riser. Thus, economic development includes both economic growth as well as economic welfare.

Definition : In the words of Peterson, "Economic development is a process whereby the real per capita income & economic welfare increase over a long period of time."

According to Todaro, "Economic Development" is multidimensional process involving major changes in social structures, population attitudes & national institutions as well as the acceleration of economic growth, the reduction of inequality & the reduction of absolute - poverty."Resources are generally defined as all those things available in man's physical environment on which he depends for the satisfaction of wants. Role of resources has always been recognized in eocnomic development. Both economic and non- economic factors play an important role in determning the pace and direction of development.

1.7 QUESTIONS

Q.1 Explain the concept of Economic Development.

Q.2 Write a note on development, freedom and opportunity.

M.A. ECONOMICS		LESSON NO. 2
COURSE NO. ECO 204	SEMESTER-IV	UNIT-I

HUMAN DEVELOPMENT , INDEXING HUMAN DEVELOPMENT IN INDIA AND RECASTING PLANNING IN TERMS OF HUMAN DEVELOPMENT

Structure

2.1 OBJECTIVES :

After going through this lesson, you will be able to

- Explain human development and its essential components

- Indexing Human Department in India
- Conceptual Issues of Scaling and Assigning Weightages
- Disuss the recasting planning in terms of human development.

2.2 INTRODUCTION

In recent years, the search for an alternative to GNP as a measure of economic development has led to computation of the Human Development Index (HDI). The United Nations Development Programme (UNDP) introduced the HDI in its first Human Development report prepared under the stewardship of Mahbub ul Haq and published in 1990. The measure has been enlarged and refined over the years and many related indices of human development like Gender-related Development Index (GDI), Gender Empowerment Measure (GEM), Gender-inequality Index (GII), Human Poverty Index (HPI) and Multidimensional Poverty Index (MPI) have been developed in subsequent Human Development Reports published annually by the UNDP.

2.3 MEANING OF HUMAN DEVELOPMENT

Since its launch in 1990, the Human Development Report has defined human development as the process of enlarging people's choices. The most critical ones are to lead a long and healthy life, to be educated and to enjoy a decent standard of living. Additional choices include political freedom, other guaranteed human rights and various ingredients of self-respect. These are among the essential choices, the absence of which can block many other opportunities. Human development is thus a process of widening people's choices as well as raising the level of well-being achieved. Thus, as noted by Paul Streeten, the concept of human development puts people back at centre stage, after decades in which a maze of technical concepts had obscured this fundamental vision.

According to Mahbub ul Haq, "the defining difference between the economic growth and the human development school is that the first focuses exclusively on the expansion of only one choice - income -while the second embraces the enlargement of all human choices—whether economic, social, cultural or political."

Human Development:

Human Development is a widening of people's choices as well as an improvement in the levels of well-being achieved.

Human Development is necessary on account of the following reason:

→ Human Development is the end. while economic growth is a means to this end.

→ It is a means to higher productivity.

→ It helps in lowering the family size.

→ It creates good physical environment.

→ It contributes to a healthy civil society.

Essential components of Human Development are:

→ Equity

→ Sustainability

→ Productivity

→ Empowerment.

2.4 WHY HUMAN DEVELOPMENT?

According to Paul Streeten, human development is necessary on account of the following reasons:

1. Human development is the end while economic growth is only a means to this end. The ultimate purpose of the entire exercise of development is to treat men, women and children - present and future generations—as ends, to improve the human condition, to enlarge people's choices.

2. Human development is a means to higher productivity. A well-nourished, healthy, educated, Skilled, alert labour force is the most important productive asset. Thus, investments in nutrition, health services and education are justified on grounds of productivity.

3. It helps in lowering the family size by slowing human reproduction. It is the experience of all developed countries that improvement in education levels (particularly of girls), better health facilities and reduction in infant mortality rates leads to a lowering of the birth rates. While improved education facilities make people aware of the benefits of a small family (a higher income level, better standard of living, etc.), reduction in infant mortality rates reduces the incentive of having large families as fewer child deaths are now feared.

4. Human development is good for physical environment, Deforestation, desertification and soil erosion decline when poverty declines. Paul Streeten cites recent research to show that rapid (though not accelerating) population growth and high population density (particularly) if combined with secure land rights) can be good for soil and forest conservation

5. Human development and reduced Poverty contributes to a healthy civil society' increased democracy and greater social stability. The above discussion shows that human development paradigm embraces the entire society not just the economy. The political, cultural and social factors are given as much importance as the economic factors.

2.5 ESSENTIAL COMPONENTS OF HUMAN DEVELOPMENT

According to Mahbub ul Haq, there are four essential components in the human development paradigm: equity, sustainability, productivity and empowerment.

1. **Equity**: If development is to enlarge people choices people must enjoy equitable access to opportunities. Equity in access to opportunities demands a fundamental restructuring of power in many societies and change along the following lines: (i) change in the distribution of productive assets especially through land reforms: (ii) major restructuring in the distribution of income through progressive fiscal policy, aimed at transform income from the rich to the poor; (iii) overhauling of the credit systems so that the credit requirements of the door people are satisfactorily met; (iv) equalization of political opportunities through voting rights reforms, campaign finance reform. and other actions aimed at limiting the excessive political power of a feudal minority; and (v) undertaking making steps to remove

social and legal barriers that limit the access of women or of certain minorities or ethnic minorities to some of the key economic and political opportunities.

2. **Sustainability**: The next generation right to enjoy the same well-being that we now enjoy makes sustainability an essential component of the human development paradigm. At times, the concept of sustainability is confused with the renewal of natural resources, which is just one aspect of sustainable development. As emphasized by Mahbub ul Haq, "it is the sustainability of human opportunities that must lie at the centre of our concern." This, in turn, requires sustaining all forms of capital-physical, human, financial and environmental. Sustainability is a matter of distributional equity —of sharing development opportunities between present and future generations and ensuring intergenerational and intergenerational equity in access to opportunities. However, as cautioned by haq, "Sustainability does not mean sustaining present levels of poverty and human deprivation. If the present is miserable and unacceptable to the majority of the world's people, it must be changed before it is sustained. In other words, what must be sustained are worthwhile life opportunities, not human deprivation." Not only this, sustainability also means that wide disparities in lifestyles with and between nations must be re-examined and efforts undertaken to reduce them. This is due to the reason than unjust world is inherently unsustainable both politically economically. It may be environmentally unsustainable as well.

3. **Productivity**: An essential part of the human development paradigm is productivity, which requires investments in people and an enable microeconomic environment for them to achieve their maximum potential. Economic growth is, therefore, a subset of human development models an essential part but not the entire structure." Many East Asian economies like Japan and the Republic of Korea have accelerated their growth through tremendous investments in human capital. In fact, most of the development literature has focused on the productivity or human endeavor. Many recent models, of development are based primarily on human capital. However, as correctly Pointed out by Haq, this approach treats people only as a means of development and obscures the centrality of people as the ultimate end of development. Therefore, it is better to treat productivity only as one part of the human development paradigm-with equal

importance given to equity, sustainability and empowerment.

4. **Employment:** Human development paradigm envisages full empowerment of the people. Empowerment means that people are in a position to exercise choices of their own free will. "It implies a political democracy in which people can influence decisions about their lives. It requires economic liberalism so that people are free from excessive economic controls and regulations. It means decentralization of power so that all governance is brought to the doorstep of every person. It means that all members of civil society, particularly non-governmental organizations, participate fully in making and implementing decisions." The empowerment of people requires action on various fronts: (i) it requires investing in the education and health of the people so that they can take advantage of market opportunities (ii) it requires ensuring an enabling environment that gives everyone access to credit and productive assets so that the playing fields of life are more even; and (iii) it implies empowering both women and men so that they can compete on an equal footing.

2.6 INDEXING HUMAN DEVELOPMENT IN INDIA

The concept of human development is as old as the economic thought itself but its quantitative measurement is of recent origin. The former can be traced back to the oriental societies as their objectives have always been to maintain, improve and provide the basic requirements of nutrition, living space and social harmony. Even the ancient scripts such as Arthashastra by Kautilya can be seen as a treatise of human development as it discusses systems of governance that can ensure certain welfare standards to all the sections of population. Similarly, Adam Smith in his work "The Wealth of Nations" emphasizes on state investment in education and other social areas as, he felt that private entrepreneurs motivated by profit maximization may not make adequate investment in these sectors. At the root of his proposition of laissez-faire lies the intent of the good for common man and he cautions the state that inefficiencies in the system may damage the common cause. The assessment of economic value of total production in a country during certain period has traditionally been done by an accounting process that evaluates 'domestic product' in terms of prices obtaining in the market. The progress of a nation and its economic development has, therefore, been measured in monetary value and expressed through a common denominator across countries. The GDP or NDP has been considered a reasonably good measure to determine the nation's wealth and economic performance over time. The inadequacies of this measure have, however, been noted right from the time of its use for cross-country comparisons. Many scholars have pointed out that this unidimensional estimate does not capture the achievements or failures of the efforts of a society in providing welfare to its people for a large number of reasons. Despite these inadequacies, cross country comparisons continue to be made on the basis of per capita GDP. It is common for the multilateral and bilateral agencies to take the latter as the basis in charting out plans and strategies for funding development projects aiming to increase equity among the regions and among the population groups. The inadequacy of such comparisons as also the need to define 'development' as a multidimensional and multifaceted concept has, however, been recognized by large segment of policy-makers and researchers all around the globe in the recent decades. This understandably has brought forth the necessity to consider a set of indicators pertaining to the different dimensions of development and their composition into an aggregative index. Regional planners and geographers and to a lesser extent the development economists in India have been constructing composite indices since the early years of the present century. The issues concerning database, selection of indicators, making them scale free and assigning weightages have received some attention of the researchers and policy-makers although many of these remain unresolved. The problems due to lack of objectivity in choosing the indicators and assigning them weightages has limited the applicability of these indices in development policy, particularly for the purposes of resource allocation. Economists have shown considerable reluctance to use the methods for obtaining a composite ranking of the arial units based on the rankings by a large number of indicators, on the ground of theoretical legitimacy. The famous Impossibility Theorem of Kenneth J. Arrow, which challenged the theoretical foundation of working out a unique social ordering based on the orderings of a number of individuals, has proved to be an obstacle for any such composition exercise for quite some time. The needs of development policy have, however, proved to be a strong motivation for keeping the interest in composite indices alive. Of late, however, a number of economists and policy planners have shown willingness to go beyond the formal limits of theory and exercise judgments about the weightages to be assigned to the indicators for working out a composite ranking. With the publication of Human Development Report (HDR), such exercises have got a big boost. The enthusiasm with which the HDRs have been received in different countries and in different disciplines confirms the relevance of such exercises. Presently, composite indices are being built for different dimensions of social and human development and at different levels of aggregation. The methodological issues of scaling and composition, however, have remained by and large unanswered. The technique of making indicators of human development, relating to income, literacy and life expectancy, scale free through range equalization method and their aggregation by giving equal weightages have not been adequately defended in the Human Development Report. Despite unhappiness being expressed by a few researchers, no comprehensive effort has been made to pose the issues of measurement in a clear perspective, resolve the prevailing controversies and obtain some kind of consensus on the approach or methodology. The popularity of HDR has prompted a number of research institutions and scholars to build up similar indices at the state and even at the district level without getting into the methodological debate. Understandably, the question of database becomes far more complex when composition exercises had to be done at sub-national level. Despite the current usage of these indices in policy discussions, it is disappointing to note their limited use in resource allocation and programme implementation. This, to an extent, is due to the methodological issues not being resolved with adequate clarity. It would also be important to establish the relevance of such indices in policy formulation and programme implementation while resolving these methodological controversies.

2.7 MEASURING DEVELOPMENT AS A MULTIDIMENSIONAL CONCEPT: METHODOLOGICAL ISSUES

It becomes evident from development literature that development cannot be measured through income alone. It manifests in a number of dimensions such as in human health, longevity, literacy and a certain level of standard of living that must be incorporated in any measurement exercise. The indicators selected for these dimensions, therefore, must articulate aspects of development that are conventionally missed out. However, there will be difficulties in determining the number of indicators that would adequately capture the shades of meaning associated with development. Indeed, there are parameters such as freedom from fear, freedom of choice, freedom to profess religious duties, freedom of information, freedom to participate in political activities and so on. But getting dependable information on these parameters is difficult. For making the index useful and acceptable in policy making, it would be desirable to include only those indicators that are amenable to measurement and statistical analysis.

Human development indices should attempt to evaluate the achievements of growth and development in terms of improvement in quality of life of masses and overall development of society and environment. The indices can, therefore, be used to assess the level of success of development programs implemented by the national and state governments as well as those proposed by the multilateral and bilateral aid agencies and international civil society organisations. The UNDP has spearheaded the initiative to compute the Human Development Index (HDI) which encompasses besides physical income two other aspects that reflect health and educational development, viz. life expectancy at birth and adult literacy. This has encouraged efforts to develop human development indicators and indices at sub-regional and local levels (possibly keeping in mind the recent innovations of governance effected through the 73rd and 74th constitutional amendments that makes decentralisation mandatory), a part of it being sponsored by the UNDP. The Human Development Reports (HDRs), published annually by United Nations Development Programme (UNDP) since 1990, have brought into focus that the objective of development is not simply to produce more goods and services for material enrichment, but to increase the capabilities of people to lead full, productive and satisfying lives. What is of basic concern is the ability of people to lead a long and healthy life, to have access to knowledge and sufficient income to buy adequate amounts of food, clothing, shelter and other basic amenities.

Keeping in view the objectives of development across countries, the HDRs identified three areas of social concern, viz. education, health and material well-being. For each of these areas, the reports have identified the following suitable indicators to measure progress.

- Life expectancy at birth for health.
- Adult literacy rate for education.
- Per capita income with declining marginal utility for material well-being.

The relative performance of a country in an area of concern is measured with reference to the ‘maximum’ and ‘minimum’ values of the concerned indicator. Division of the value of the country by the range, viz. the difference between the maximum and the minimum, is expected to make it “scale free”. The scale free values of the three indexes are then combined, equal weightage is given to each, to get the Human Development Index (HDI) for the country. The first HDR released in 1990, revealed that there is no automatic link between economic growth and human progress. Modest levels of income in case of several countries were found to be translating into fairly respectable levels of human development. The 1990 HDR, therefore, recommended a social development approach within this framework of popular and NGO participation. Understandably, some of the conceptual and measurement aspects of the human development index came under criticisms, following the release of the 1990 HDR. The UNDP have responded to these criticisms by making refinements in the indicators as also methodology of measurement. Notwithstanding all these, the objective of achieving a reasonable level of HDI has brought about reallocation of resources in several countries to match the priorities of human development. An important omission frequently pointed out by critics is the dimension of freedom. Dasgupta has criticised the HDI for neglecting human rights: “As a measure of human development, it is quite incomplete; it is oblivious of what is commonplace to call human rights” (Dasgupta, 1990). It is only in the HDR 2000 that this figures prominently. The second criticism was ignoring aspects of political volatility. The HDI is based on relatively stable indicators, which do not change dramatically from year to year. Political freedom, by contrast, can appear or vanish abruptly. Therefore, the HDR 1992 considered political freedom separately, emphasizing an adequate methodology for constructing an index of political freedom or of human rights performance. For longevity, life expectancy at birth has been widely accepted as an indicator of development. But it has been suggested that infant mortality should complement life expectancy, particularly in developing countries. Further, empirical analyses show that life expectancy fails to discriminate among the industrial countries. Keeping all these in view, UNDP has been in the process of refinement or modification of the index. Although the basic concept of development and the methodological parameters have remained by and large unchanged over time, there have been modifications in the specific indicators. The summary of the changes is presented in the following table.

Table: 3.1

Changes in the Choice of Indicators for HDI Estimates Used by the UNDP (1990–2000)

Year	Income	Education	Health
1990	Log of real GDP per capita	Adult Literacy Rate	Life Expectancy at Birth
1991	Atkinson formula using real GDP per capita $W(y) = y$ for $0<y<y^*$ $= y^* + 2(y–y^*)^{1/2}$ for y^*£ y£ $2y^*$ $= y^* + 2(y^*)^{1/2} + 3(y–2y^*)^{1/3}$ for $2y^*$£ y£ $3y^*$ and so on. Where y* is the poverty line and the full income is divided into multiples of poverty line.	Education = a* Literacy Rate + b* Mean Years of Schooling where a=2/3, b=1/3.	-do-
1992	-do-	-do-	-do-
1993	-do-	-do-	-do-
1994	No change in the methodology nor in indicators. Except, the maximum and minimum values have been fixed for the four basic indicators. The threshold value is taken to be the global average real GDP per capita (PPP$40,000 and $200). Adult literacy (100% and 0%) Mean years of schooling (15 and 0 years). Life Expectancy (85 and 25 years).		
1995	Minimum value of income has been revised from PPP$200 to PPP$100.	The indicator mean years of schooling has been replaced by the combined primary, secondary and tertiary enrolment ratios (max. value 100% and the min. value 0%).	-do-

1996	-do-	-do-	-do-
1997	-do-	-do-	-do-
1998	-do-	-do-	-do-
1999	Log of real GDP per capita	-do-	-do-
2000	-do-	-do-	-do-
2010	Real GNI per Capita PPP $	(1/2) Mean years of schooling index (Barro-Lee) (1/2) Expected years of schooling index (UNESCO)	-do-

Source: Human Development Report, UNDP, Different Years.

For the educational dimension, the 1990 Report used adult literacy rate as the sole indicator. It was, however, argued that functional literacy is often less than recorded literacy, especially in industrial countries. Also, this indicator fails to discriminate among industrial countries. Consequently, 'mean years of schooling' was added to adult literacy since 1991. It was nonetheless pointed out that years of schooling does not capture educational achievement since it takes differential efforts to learn different languages. Furthermore, it is difficult to acquire reliable data across countries on years of schooling and it changes slowly over the years. That is why in HDR 1994, mean years of schooling was replaced by 'combined school enrolment'. In the first HDR 1990, the economic dimension was included by using the logarithm of income up to a ceiling and giving a zero weight to incomes above that. In later years, a different approach was followed. The modified approach allows for diminishing marginal utility of income. However, above that level, a progressive correction factor was introduced to take into account diminishing marginal utility of income through a modified Atkinson formula. The formula incorporates the elasticity of the marginal utility of income with respect to income, which discounts income progressively at higher levels. A subsequent adaptation is that the full range of income is divided into multiples of the poverty line. Thus, for per capita income between the poverty line and twice the poverty level, the Atkinson parameter was taken to be one-half;

for per capita income between two and three times the poverty line, the elasticity was taken to be two-thirds and so on. The higher the income relative to the poverty line, the more sharply the additional income gets discounted. Income above the poverty line thus has an effect, but not a full dollar-for-dollar effect. This effect although less at higher levels is enough to differentiate among industrial countries. These modifications have been criticised on the following grounds.

- It is more complicated than a simple logarithmic transformation.
- It is based on a indicator elasticity function rather than constant elasticity.
- It also reduces the weight of extra income above poverty just as severely as the logarithmic transformation does.

It has never been suggested that income needs to be supplemented or replaced by another indicator. It has, nonetheless been argued that, conceptually, income overlaps with the other two indicators. Empirically, these indicators are so highly correlated with income that these become almost redundant. However, no change has been incorporated in the HDR 1993 partly to avoid inconvenience caused to the users due to frequent revisions. In the HDR 1994, some changes have been made in the construction of HDI. First, maximum and minimum values have been fixed for all the indicators. Second, the indicator — mean years of schooling — has been replaced by the combined primary, secondary and tertiary enrolment ratios, as noted above. Third, the minimum value of income has been revised from PPP $200 to PPP $100. This revision became necessary because in the construction of the gender-related index, the minimum observed value of female income of PPP $100 was to be used as the lower limit. Importantly, the HDR 1994 introduced a new concept of human security — the security of people in their homes, in their jobs, in their communities and in their environments. It identified the policy changes in national and global management, required in keeping with this new concept of human security. The HDR 1995 considers the HDI to be providing a partial snapshot of human development and therefore has limitations as a comprehensive measure of human development. To give a more complete picture, the HDI should be supplemented with other human indicators and particularly those pertaining to political freedom, environmental sustainability and equity. The basis for the selection of such critical dimensions should be linked to basic capabilities which people must have to participate in and contribute to the society. The concept of human development has, thus, gone beyond its basic premises and presently seeks to cover sustainability of development process. Human development is, thus, being viewed as a process of enlarging people's choices so that they can decide ways and means to achieve material well-being within the context of their socio-political and economic systems. Such enhancement must be for both present and future generations without sacrificing one for the other. Human development, thus, not only puts people at the centre of development but also advocates protecting the life opportunities of future generations and respecting the natural systems on which all life depends. Another aspect of the concept is equity of opportunity and standard of living among all sections of the population. All barriers to economic and political opportunities must be eliminated so that people can participate in and benefit from these opportunities. Sustainable human development addresses the issue of equity both within a generation as also between generations. It seeks to limit development process within the carrying capacity of nature, giving high priority to environmental regeneration and protection of opportunities for future generations. Another area of concern is creation of 'enabling environment' so that the potentials of individuals can be optimally utilized. This is compatible with the modern day economic thinking of globalization, cross border co-operation and scientific temper. HDR 1995 also states that the most essential component of human development paradigm is 'empowerment' of the people. The HDR 1996 admits that there is no automatic link between economic growth and human development, but when these links are forged with policy and determination, they can be mutually reinforcing and economic growth can effectively improve human development. In HDR 1999, a thorough review of the treatment of income in the HDI was done, based on the work of Anand and Sen (1999). Earlier, the average world income was taken as the ceiling and any income above this level was discounted using Atkinson's formula for the utility of income. The main problem with this formula is that it discounts the income above the threshold level heavily. The new methodology adopted to construct the index of income discounts all income and not just the income above a certain level. Further, the middle income countries are not penalized heavily as their relative values rise because of the new discounting formula.

Changes in the 20th Edition of HDR

HDI 2010 provides a composite measure of three dimensions of human development based on four indicators - health (life expectancy at birth), knowledge (mean years of schooling and expected years of schooling) and living standards [Gross National Income (GNI) per capita].

Under the previous HDI formula, health was measured by life expectancy at birth, education or “knowledge” by a combination of the adult literacy rate and school enrolment rates (for primary through university years), and income or standard of living by Gross Domestic Product (GDP) per capita adjusted for purchasing-power parity (PPP US$). Health is still measured by life expectancy at birth. But the 2010 HDI measures achievement in knowledge by combining the expected years of schooling for a school-age child in a country today with the mean years of prior schooling for adults aged 25 and older. The income measurement, meanwhile, has changed from purchasing-power-adjusted per capita GDP to purchasing-power-adjusted per capita Gross National Income (GNI); GNI includes remittances and foreign assistance income, for example, providing a more accurate economic picture of many developing countries. GDP in the previous HDI was capped at $40,000 and was logarithmically transformed. The original HDI placed this cap on income to reflect the view that beyond some upper set amount, additional income does not expand human development opportunities. Over the years, it has been observed that the discriminatory power of capped income has been weakened, especially for discrimination between the very high developed countries. The caps in each dimension are lifted, so one can say that they are equal to the observed maxima over the period (1980-2010) for which HDI trends are presented. The dimension indicators are transformed using the maximum levels for all sub-components observed over the period for which HDI trends are presented (from 1980). The minimum levels for the dimension indicators are set as follows: life expectancy at 20 years; both education variables at 0; and GNI per capita at PPP $163, which is the observed minimum. The choice of minimum values is motivated by the principle of natural zeros below which there is no possibility for human development.

2.8 CONCEPTUAL ISSUES OF SCALING AND ASSIGNING WEIGHTAGES

The composition of indicators can be done in two stages (a) elimination of the bias of scale and (b) determination of weightages. These are discussed separately while highlighting the elements of subjectivity embodied in the various methods employed in each stage.

(A) Making the Indicators Scale Free

The indicators chosen for working out composite indices are measured in different units and hence in general are not directly additive. It, therefore, becomes necessary to convert them to some standard 'units' so that the initial scale chosen for measuring the indicators do not bias the results. It is, however, true that any method of scale conversion involves implicit weighting and the selection of a standard scale is never a value free decision.

Conversion to a Discrete Scale: For eliminating the bias of scale, the chosen indicators can be transformed into discrete indicators. Each observation may be assigned a value in the discrete scale on the basis of its relative position in the series. The method of ranking, popular among regional scientists for its simplicity and computational ease, falls in this category. This method has been dubbed as having 'doubtful theoretical meaning', as unit difference in ranks do not reflect an equal difference in indicator values.

Range Equalisation Method: The distribution for each indicator can be adjusted in such a manner that each would have the range from zero to 100. This can be achieved by simply subtracting the lowest value from each indicator, dividing it by range and then multiplying by 100. The first scholar to use the method in Indian context was Schwartzberg (1969) for the purpose of socio-economic regionalisation based on a composite index.

Standardization: The scale-effect can be removed by dividing the deviation of each observation from the mean by the standard deviation. This technique, widely used by Western geographers, imposes such conditions on indicators which might be sufficient, but not necessary, to eliminate the bias of scale. Subtraction of the mean from each observation distorts the ‘relative position’ of the observations. Addition (or subtraction) of a value to (from) two unequal observations affects their earlier ‘relationship’, whereas division or multiplication by any positive (finite) number leaves it unaffected when the indicators are measured in a ratio scale. The method also has the disadvantage of equalising variance and length of all the indicators and this may be taken as discrimination against indicators having higher dispersion, independent of scale.

Division by standard deviation: The observed values of an indicator may be divided by the standard deviation of the series, which is an absolute measure of dispersion, to obtain a new series with standard deviation as unity. This method does not lead to a shift in the origin, although the criticism leveled against the method of standardization for equalizing variance would be valid in this case also.

Division by mean: The observations for each indicator can be divided by the mean to get rid of the bias of scale without affecting the relative position of the districts in the series. This transformation does not disturb the ‘dispersion’ of the indicators since the co-efficient of variation (CV) of the original series is retained as the standard deviation (or the CV) of the transformed series. In social research, however, mean does not enjoy any ‘secular sanction’ greater than any other parameter of the distribution nor is there a priori justification for preserving the CV of the original series as standard deviation of the new series.

Division by an ‘ideal’ value: A value higher or lower than the mean, viz. national or international average, target parameter, etc. may be considered to be the norm of a series. It should then be possible to suitably manipulate the CV by dividing the series by this normative value. When norm is higher (lower) than the mean, the standard deviation of the transformed series will be less (more) than the CV in the original series. This is understandable because a given difference put in relation to two unequal values has a different significance.

(B) Assigning Weightages ‘Objectively’

Once the bias of unit of measurement is removed from the observations, the crucial problem that remains is of assigning appropriate weightages to the chosen indicators. If a researcher has sufficient insight into the nature and magnitude of the interrelations among the indicators and their socio-economic implications, he or she might choose to determine the weightages using individual judgement. This often introduces a certain amount of subjectivity into the analysis, although in some situations it might help in capturing the social reality much better than any statistical technique. Regional patterns obtained through such methods, however, stand exposed to ad hoc influences of vested interests. A research agency can, for example, obtain a ranking of the districts to suit the interests of the organisation it is serving by manipulating the system of weights. In a democratic set up, where the fate of policy-makers depends, largely, on the support of various pressure groups, ambiguity regarding the scheme of weightages would be helpful in following a policy of appeasement and may result in decisions injurious to the less privileged regions. Determination of the weights for the indicators in a positivistic manner is, as has been mentioned above, a One can only hope to minimise the dangers of ad hoc political influences, group pressures and opportunistic errors by applying standard mathematical techniques whose value implications are well known to the users and to other concerned parties.

Equal Weightages: Giving equal weights (also called the method of unweighted aggregation) is one of the popular axioms proposed to solve the weightage problem. Giving equal importance to all the indicators is often considered to be an acceptable solution when there is 21 NCAER no reason to do otherwise. Arguably, giving equal importance to all indicators is not necessarily the best answer, especially when the composite index is likely to be used for policy purposes. Even when the principle to give 'equal importance' to the indicators is accepted, it may be interpreted to mean equal correlation with the composite index or equal representation in the variance of the composite index.

2.9 CONSTRUCTING HDI FOR INDIAN STATES

Effective targeting of development programmes initiated by the government often requires knowledge regarding the position of each state in terms of human development. An attempt is made here to compute human development index (HDI) in the major states in India using alternate methods of scaling and composition and examine the regional variation. A composite HDI would enable determining the levels of development of the states and rank them in an ordinal scale. Understandably, it does not suggest what goals, priorities and development strategies a country/state should pursue in order to improve the human development status. The method of composition, on the other hand, makes a number of assumptions and these need to be defended in terms of the goals and objectives of development pursued by the country. The methods of indexing human development, therefore, can not be independent of the framework of the research study. One crucial question that arises in this context is whether the social database in the country is adequate for the preparation of Human Development Profile or Human Development Index at the state level, similar to what is done in the UNDP reports Relevant data are available from sources like the Census, NSSO, SRS, NCERT, NFHS. These offer fairly dependable information that could be used to prepare a HDI that can address a broad range of national concerns. However, following are some limitations of the existing data sources. All sources do not have uniform concept coverage or a framework. The indicators on which different sources collect information are different. The time period and the periodicity of data collection are different for different sources. Because of these limitations, effective targeting of programmes and policies through a composite index or identification of the causal factors responsible for the disparities becomes extremely difficult.

2.10 RECASTING PLANNING IN TERMS OF HUMAN OEVELOPMENT

Mahbub ul Haq has made a strong plea for recasting the planning models and strategies in terms of human development. Such recasting would contain at least the following five distinct elements conspicuously lacking in most plans today.

1. The plans would start with a human balance sheet, Thus, they would start with questions relating to the extent of human resources in the country, the level of education, inventory of skills, profile of relative income distribution and absolute poverty, levels of unemployment and underemployment, urban-rural distribution and level of human development in different regions, cultural and social attitudes and aspirations of the people, etc. Generally, the first chapter of a development plan presents macroeconomic aggregates of GNP,

saving, investment and other components of national income accounts.

2. Plan targets would first be expressed in terms of basic human needs and only later translated into physical targets for production and consumption. Thus, there would have to be a clear exposition of the targets for average nutrition, education, health, housing, etc. The basic needs targets, once identified in terms of national requirements and specified in terms of the nation's resources, will then have to be built into detailed planning for production and consumption. "In other words, we must proceed from ends to means, not the other way around."

3. Recasting plans in terms of human development requires placing equal emphasis on production and distribution objectives. The development plan will not only specify what is to be produced but also how national production is to be distributed equitably. This would require action, at least, on the following four forms: (i) initiating action programmes and delivery mechanisms to increase the productivity of the poor - particularly small farmers and small entrepreneurs; (ii) employment planning, as the only effective means of improving distribution in many societies is to create adequate employment opportunities (iii) redistribution of productive assets particularly land, as the existing distribution in many developing countries is badly skewed; and (iv) creation of social safety nets for the poor.

4. If human beings are to be declared the ultimate objective of economic planning, adequate steps are required to ensure their full participation in planning. Thus the human development strategy must be decentralized. The beneficiaries need to be involved fully in planning for themselves and then in implementing the plan that is finally drawn up.

5. A comprehensive set of social and human development indicators needs to be evolved to monitor plan progress. In addition to GNP growth rates, annual assessments on the performance on human development front, changes in relative and absolute poverty levels, etc., need to be carried out.

These five elements should form the first part of the plan and the conventional national income accounts should be moved to the second part of the plan. Recasting plans along the above lines by the developing countries will make them more meaningful for the people and also ensure better community participation in the planning process. However, as noted by Mahbub ul Haq, changes along the above lines are not minor, but basic. The difficulties are enormous but the task is challenging, exciting and worthwhile. One should not forget that many difficulties had to be encountered in the construction of national income accounts also in the early stages. After the difficulties of the initial effort are overcome, human balance sheets too should become common place.

2.11 SUMMARY

The Human Development Index (HDI) is calculated using normalized indicators from three dimensions health, education, and standard of living (or income). This paper evaluates three aggregation methods of computing HDI using a set of axioms. The old measure of HDI taking a linear average of the three dimensions satisfies monotonicity, anonymity, and normalization (or MAN) axioms. The current geometric mean approach additionally satisfies the axioms of uniformity, which penalizes unbalanced or skewed development across dimensions.

2.12 QUESTIONS

Q.1 Define the concept of human development.

Q.2 Write down the essential components of human development.

Q.3 Discuss about the recasting planning in terms of human development.

INDIAN POLITICAL ECONOMY AND INCLUSIVE GROWTH

Structure

3.1 OBJECTIVES :

After going through this lesson, you will be able to

- Understand the scenerio of Indian Political economy from the period of 1980-2010
- Discuss Inclusive growth

3.2 INTRODUCTION

India in the recent past was a country of socialist and contentious politics, sluggish economic growth, and numerous poor and illiterate people. Since about 1980, India's political economy started moving in new directions. Over the next three decades Indian democracy put down firmer roots, socialism was discarded for pro-business policies, and the economy grew rapidly. Unfortunately, this "new" India still remains a country of numerous poor, illiterate and unhealthy people. Significant pockets of violence also continue to do the political landscape.

3.3 INDIAN POLITICAL ECONOMY (1980-2010) AND INCLUSIVE GROWTH

The decade of the 1970s underline some key features of the "old" India. During that decade Indira Gandhi accentuated Nehru's socialism in a populist direction, committed the Indian state to poverty alleviation, mobilized the poor, and centralized power in her person. Opposition forces undertook their own mobilization against Indira Gandhi. Political polarization produced a series of rapid political changes in the late 1970s: the proclamation and the residing of a national Emergency, Indira Gandhi's electoral defeat, the inability of opposition forces to provide stable government, and the return of Indira Gandhi to power. Populism and instability hurt economic growth, leading to a lack luster decade for the economy. Indira Gandhi's rhetorical commitment to the poor was also not translated into meaningful outcomes; a sluggish economy and an organizational inability to intervene on behalf of the poor remained major obstacles. As national elections were concluded in 2009, some striking features of a new Indian political economy were evident, though important continuities with old India also remained. Following three decades of nearly steady and rapid economic growth, the elections were normal and peaceful. Competing political parties largely agreed on the basic approach to the economy: a commitment to economic growth and indigenous capitalism; modest global opening; and some commitment to the poor. No major political party argued for socialism. A firmly rooted democracy, a shared commitment to growth and national capitalism, and fairly rapid economic growth are key features of India's new political economy. This, however, is not the full picture. Three decades of economic growth have been accompanied by growing inequalities. The gains for the poor have also been only modest; their dissatisfactions often spill into a variety of political arenas. Well aware of these trends, India's premier political party, the Congress, contested the 2009 elections on a platform of "inclusive growth" and won. It remains unclear whether future economic growth will be more inclusive than in the recent past. A rhetorical commitment to the poor and an inability to translate this commitment into real gains for the poor thus remain shared features of the old and the new Indian political economy. Nevertheless, even on the issue of poverty there are some important differences between then and now. A sluggish economy and organizational inabilities were major obstacles to helping the poor in the pre-1980 period. In the new context of a buoyant economy, resources to help the poor ought to be available. What is now doubtful is the depth of the commitment of India's pro-business leaders to the poor. Even if this commitment turns real, however, as in the past, the state's capacity to reach the poor continues to be limited; improving this capacity will remain a pre-condition of successful state intervention on behalf of the poor. Admirers of the changing Indian political economy focus mainly on its apex. They variously describe contemporary India in such glowing terms as a "tiger uncaged," "emerging global power," or "India shining." As often these observers attribute the underlying dynamism to a process of economic liberalization that they believe began in 1991. By contrast, many critics argue that gains of liberalization are being exaggerated, and what is being underestimated are such costs as growing inequalities, neglect of the poor and the marginalized, and the threat to national sovereignty.

By global standards, economic liberalization in India arrived slowly, proceeded haltingly, and still remains incomplete. It is difficult to attribute both significant economic gains and misery of many to these limited changes. The deeper drama in India instead is one of a basic realignment of state and class forces. Starting in the late 1970s and the early 1980s, Indian leaders abandoned their anti-capitalist rhetoric and, along with that, an avowed commitment to economic redistribution and to a mass based polity. The state instead prioritized economic growth and production. This shift had already occurred in the countryside during the second half of the 1960s, with the so-called green revolution. By the 1980s, state and producer alliance that was aimed at boosting production became a nationwide phenomenon. Over the next three decades the Indian state and business groups, especially big business, solidified their political and economic alliance. This ruling alliance is so well entrenched by now that many observers do not shy away from characterizing India as "India incorporated." a close alliance between state and big business is responsible both for releasing economic dynamism and for limiting the spread of the resulting gains. The management of a narrow ruling alliance in India's vibrant democracy, however, also poses significant political challenges, especially how to accommodate the struggling, excluded masses.

3.4 POLITICAL CHANGE

India is a deeply political society. Ever since independence, a highly interventionist state has been very much in command of the economy. Since the state structures the life chances of many, power in Indian democracy is contested vigorously, from the top to the bottom. The winners in turn use their positions and power just as vigorously, at times in the interest of the general good, but just as often for narrow, self-serving ends. The recent economic liberalization has reduced the role of the state in Indian society, but only somewhat. The state still sets the basic direction of the economy, controls enormous resources, and access to the state continues to attract the energies of numerous Indians. Any full understanding of contemporary Indian political economy then must begin with an analysis of economically relevant political changes in the nature of the Indian state. It can be divided into two parts

First, the Indian state has become a lot more pro-business over the last three decades than in the past. These shifting class preferences of the Indian state are deeply consequential for the choice of economic policies and for patterns of economic change in India. A second main theme concerns the political challenges thrown up by the pursuit of a narrow, pro-business ruling alliance. Ever since Indian leaders abandoned the rhetoric, if not always the practice, of populism to embrace economic growth as a priority and business groups as a mainly, they have struggled to come up with a legitimacy formula that might enable electoral support of majorities while catering to narrow interests. It may be useful to introduce both of these themes at this point. India, of course, is a private enterprise economy, and has always been so. In this limited sense the Indian state was never deeply anti-private enterprise. During Nehru years, a vague commitment to socialism—that was part and parcel of India's anti-colonial nationalism— provided the ruling ideology. While much of the economy remained in private hands, public enterprise was privileged and big business was viewed with suspicion. For political needs Indira Gandhi in later years accentuated the anti-capitalist bias of the Indian state. Ironically, when faced with new political and economic problems, she herself reordered the priorities of the Indian state during the early 1980s; she slowly but surely started emphasizing the need to improve production and sought a working alliance with big business. Thus began a new phase in India's political economy. By the early 1980s the world was changing, with pro-market ideas and practices in ascendance. Within India too socialism was getting discredited as failures of anti-poverty programs and of public sector enterprises accumulated. When Rajiv Gandhi came to power, he and his technocratic team used the occasion to make a clean break from socialism, opening room for Indian capital to flourish. The loudly announced liberalization of 1991 opened the Indian economy to global forces, but only incrementally. The pace and scope of economic opening in India has been carefully orchestrated by India's nationalist rulers; the goal has been to preserve the well being of indigenous business groups. More than that, the Indian state in recent years has become an active supporter of Indian business groups, protecting their interests here, subsidizing them there, and promoting public-private partnerships in yet other arenas. If Indian state has taken the lead in constructing a state-business ruling alliance, Indian business groups have hardly been mere passive recipients of manna from above. Power and influence of Indian business has grown enormously in recent decades, a power that business groups have used to mold state behavior. This power is both diffuse and well organized. A nearly obvious example of diffuse power is the growing weight of the private sector in the overall economy; for example, the share of the private, corporate sector in overall investments surpassed that of the public sector for the first time during the second half of the 1990s and has remained significant since. The role of foreign direct investment and of portfolio investment in the Indian economy has also grown. Any government that wants these investments to continue must take into account the needs and interests of private investors. A different type of example of diffuse power of business is the growing corporate control of media. That modern media influences culture and values of a society is no secret. While much of what media in India targets are consumer tastes, political values are hardly far behind. By influencing what issues get covered and how they get covered, as well as via editorials, privately controlled media in India today attempts to shift political preferences of the Indian society in a pro-business direction. Beyond diffuse power, Indian business also wields power strategically and in a well organized fashion. Electoral finance is an example of how Indian business uses money power to influence India's major political parties. A part of the explanation of economic policy convergence across political parties in India is a dependence of these parties for resources controlled by the wealthy. Indian business, especially big business, is also quite well organized by now. A number of chambers of commerce provide expression to business interests at various levels of the Indian polity. The most significant of these at the national level is the Confederation of Indian Industry (CII). Relatively recent in origin, the CII by now epitomizes the growing state-business collaboration in India. The Indian government helped the CII emerge as a leading voice of business. The CII, in turn, supports government initiatives when they are pro-business and pressures the government to move in that direction when they are not. The clearest manifestation of growing state-business alliance in India is the changing pattern of state intervention in the economy. In between 1980 -2010, the Indian state and business have increasingly converged on such crucial issues as approach to labor, pace and pattern of external opening of the economy and, most important, how to enable Indian business to improve productivity and production. What is notable in those decades were some of the symbolic and political manifestations that underline the growing legitimacy of state-business collaboration in India. For example, a joint delegation of India's political and economic elite to the World Economic Forum at Davos to present a case on behalf of "India incorporated" has by now become a regular occurrence; can anyone imagine such state-business collaboration in Nehru or Indira Gandhi's India? As another example, India's leading economic policy makers now publically ask Indian business groups: how can the government help? Would businessmen like a seat around the table when critical decisions are made? This too was not likely in a socialist India. These examples then reflect slow, steady, but major changes at the apex of the Indian political economy. Changes at the apex are precisely that, changes at the apex. India, however, is a large country with numerous poor citizens that live in a democracy, and a fairly mobilized democracy at that. The Indian state can thus never fully be a handmaiden to Indian business. More precisely, India's political leaders cannot afford politically to be seen as too close to or subservient to Indian capitalists. The political management of a narrow ruling alliance is then the second important theme running through the first part of the book. In the past, both socialism and populism enabled the mobilization of electoral majorities. Ever since the abandonment of these mass incorporating ideologies, India's leaders have struggled to devise new ruling arrangements that will enable them to serve narrow interests without alienating the majority. The struggle to devise such new arrangements is manifest in both the electoral and institutional arenas.

Over the last three decades several legitimacy formulae have competed for success in the electoral arena, none of which have sought a real economic incorporation of India's poor. The Congress Party, for example, has tried to capitalize on a combination of the popularity of the Gandhi family with shifting economic philosophies. When attempts to "sell" economic liberalization facilitated only limited electoral success, the Congress has again in recent years moved a little to the left, maintaining its core commitment to economic growth and Indian business, but also promising "inclusive growth." The Bhartiya Janata party (BJP) is India's other major political party. Instead of cutting the electoral pie along economic lines, the BJP has sought to define majority and minority interests along ethnic lines, championing the interests of India's Hindu majority. In many multicultural democracies ethnic nationalism has provided a convenient cloak for the pursuit of narrow class interests. This is true in the case of the BJP too, but so far the appeals of Hindu nationalism have failed to provide a fool proof formula of electoral success. Sensing these limits, the BJP too has tried to "sell" its "competence," but only with limited success. A variety of lesser parties in India also compete for electoral success by mobilizing around such ascriptive themes as caste politics, religion and/or regional nationalism.

Some of these parties simply do not have any real developmental commitments, while in other cases ascriptive themes hide a variety of economic ambitions. Even India's communist parties are now struggling to devise an electoral strategy that will permit them to attract business and investment without alienating their lower class base. Once elections are won, the challenge faced by India's rulers is how to pursue narrow, pro-growth, pro-business policies without losing popular support and legitimacy. The hope of India's rulers is that economic growth will be rapid enough to lift all boats and thus to maintain political support. Short of that, a variety of institutional experiments to insulate decision makers from popular pressures are also underway. At the national level, for example, economic policy making is increasingly in the hands of very few technocrats, many of whom do not have a popular political base. The institutional location of key decisions is also being shifted away from elected bodies, to such well insulated homes as a secretariat in the office of the Prime Minister or even in a revived Planning Commission. A different type of institutional experimentation that is also underway is an apparent decentralization. This enables the most important economic decisions that facilitate growth to remain the prerogative of narrow national elites—who then repeatedly claim success—while shifting much of the blame for failed policies downwards to states and localities. These regional and local failures include a failure to stimulate economic growth in India's poor states and a failure to implement a variety of pro-poor policies. Numerous political problems then – demagogues in power, corruption, failing institutions, political violence – become the "responsibility" of lower level governments, freeing the national elite to share the glow of "India shining."

Excluded groups, of course, do not simply accept elite efforts to institutionalize illusions of inclusion. They express their dissatisfactions in both the electoral and non-electoral arenas. Caste politics, especially movements of backward and lower castes, are one frequent manifestation of protest politics in the electoral arena. Some of the regional nationalist movements are also efforts to mobilize the dissatisfactions of those with regional identities into the electoral arena. While protest along class lines is not frequent in India, communist parties have achieved electoral success in a few of India's regions. Conflicts around identities and interest are often fought in India in non-electoral arenas as well. Examples include: organized labor goes on strikes; informal workers struggle to get organized; farmers come in truck loads to the national capital to demand subsidies and higher agricultural prices; feminist movements protest dowry deaths and a variety of other injustices against women; NGOs organize marginalized groups to protest their further marginalization by planned "development" projects; regions with grievances demand greater control over their own political fate; conflicting caste groups take up arms, both to fight each other and the police; ruling parties neutralize the state as Hindus kill Moslems; and the truly marginalized, say the tribal's, join revolutionary groups that now hold sway over significant number of districts in central India. And when all else fails, the destitute simply kill themselves, a phenomenon that has become common enough in the Indian countryside to acquire a name: "farmer suicides."

3.5 STATE AND ECONOMY

During these three decades India's economy has grown briskly, at the rate of nearly six percent per year. Since this growth acceleration marks a real departure from the sluggish economy of the past, many Indians rightly take pride in the new, "rising" India. Unfortunately, rapid growth has been accompanied with growing economic inequalities along a variety of dimensions. India's numerous poor have also not shared proportionately in the economic gains. Among the notable characteristics of India's rapid economic growth are the facts that it is driven mainly by national resources and is concentrated in the industrial and service sectors, especially in communication and business services. The changing patterns of state intervention in the economy have molded these outcomes. The Indian economy, especially its industrial sector, grew at a fairly sluggish rate during the 1970s, even more sluggish than in the earlier post-independence period. Concluding that India's left-leaning, socialist model of development was responsible for this sluggishness, both Indira Gandhi and Rajiv Gandhi abandoned socialism during the 1980s for a more pro-growth and a pro-business model of development. To introduce the main issues, starting in the early 1980s, Indira Gandhi's government initiated a series of pro-business policy reforms. First, the government withdrew some important constraints on big business to expand and encouraged them to enter areas hitherto reserved for the public sector. Second, the government encouraged the expansion of the private sector by providing both tax relief to big business, and a policy framework for the development of private equity markets. Third, labor activism was discouraged. And fourth, new investments into public sector enterprises were discouraged. More generally, Indira Gandhi started courting Indian big business, informing them that populism and socialism were now on the back burner, and that the government's new priorities were improvements in productivity and production. Rajiv Gandhi intensified the Indian government's pro-growth, pro-business and anti-labor stance. At the ideological level, he made a clean break from the socialist past. Among policy changes, state control over such activities of private Indian firms as entry into production, production decisions and expansion in size were eased further. Indian business groups were also provided significant concessions on corporate and personal taxes. Enhanced credit and lower taxes on the middle classes were aimed at boosting demand. Fully committed to growth, the government also hoped to boost the pace of public investments, especially into infrastructure. Unfortunately, enhanced public investments in face of tax concessions led to extensive borrowing which, in turn, paved the path towards the financial crisis of 1991. Rajiv Gandhi also sought to open India's economy to global forces but was stymied by a variety of domestic pressures, especially pressures from threatened Indian business groups. These pro-growth, pro-business policy changes during the 1980s reflected in part the changing priorities and views of India's political elite, and in part the growing political significance of India's business class. The important consequences included the emergence of an activist, growth-oriented state in India on the one hand, and growing role of the private sector in the Indian economy on the other hand. These new trends, in turn, led to both higher rates of investment and improvement in the efficiency of investment, contributing to improvement in the rates of economic growth. While the major beneficiaries were established big business firms, the relative ease of entry and growth enabled new players like the politically well connected Reliance group to also emerge as giants, competing with the likes of Tatas and Birlas. The financial crisis of 1991 provided the occasion for a second round of important changes in India's economic policy regime. This time the focus was on India's global economic links. The changes in the domestic industrial policy regime continued along the pro-business lines initiated during the 1980s: further easing of controls on the private sector to enter new areas of production and to grow; tax concessions; and further taming of organized labor. The more noticeable changes were in India's external economic relations, including trade, foreign investment and financial relations. For example, currency was devalued, the foreign investment regime was liberalized, and some restrictions on external financial transactions were eased. While these changes were dramatic by India's past standards, India's opening to the world remains relatively modest in a comparative perspective. The truly significant change in India during these three decades then is the adoption of a growth-first model of development, involving a warm embrace of state and business groups.

India's ruling elite had been waiting for the right occasion to introduce significant economic policy changes. While a financial crisis in 1991 provided such an occasion, deeper changes in the global and the national political economy generated the real catalysts. Notable among the global changes were the disintegration of India's main ally, the Soviet Union, the impending membership of India into the WTO, and growing availability of portfolio investment in the world capital markets. Within India also the obstacles to external liberalization had eased during the 1980s, especially with the emergence of an outwardly-oriented faction among India's capitalist class.

As to consequences, compared to the 1980s, India's economic growth improved somewhat, but not dramatically. The role of the private sector in the Indian economy has grown steadily. This has led to higher rates of savings and investment in the economy. The role of foreign investment in the Indian economy has also grown. By contrast, the shrinking share of public investments has become a drag on overall economic performance. This is not only because of such growth bottlenecks as India's poor infrastructure, but also because India's poorer states and the large agricultural sector are not growing as rapidly as they could with the support of public investments. If the pro-business tilt of the Indian state has helped Indian economy grow more rapidly, the distributional impact of this shift in the state's role has been largely adverse. Of course, growth acceleration is bound to help the poor somewhat. On the whole, however, the state capital alliance for growth in India is leading to widening inequalities along a variety of dimensions: city versus the countryside; across regions; and along class lines. Not only does rapid economic growth then not benefit as many of the poor as it could if inequalities were stable, but the balance of class power within India is shifting decisively towards business and other property owning classes. Political and policy determinants of distributive trends are then the other set of issues analyzed in the second section of the book. The history of post-independence India is replete with promises of redistribution and repeated failures to implement such policies. The underlying reasons include the class nature of state power and the organizational inability of the state to confront entrenched interests, especially at the lower levels. As the Indian state became more and more committed to economic growth during the 1980s, earlier redistributive commitments like land redistribution and tenancy reforms lost luster as policy options. While these policies had never succeeded much, starting in the 1980s, even their desirability became questionable. Also, very few new efforts emerged during the 1980s to improve primary education and health of India's poor. The state' focus was mainly on growth promotion instead. However, the redistributive picture during the 1980s was not totally bleak. Since public investments were maintained at a high level, publically supported growth in agriculture put a brake on growing rural-urban divide, and continuing public investments helped India's poor states from falling further behind in their relative rates of economic growth. Moderate inequalities ensured that some of the fruits of rapid economic growth reached India's poor. By contrast, economic growth in the post-1991 period has been accompanied by growing inequalities. India's poor have not benefitted greatly from this growth, creating a situation of want amid plenty. Some of the growing inequalities are inevitable in the sense that fruits of growth accrue disproportionately to those who own capital and take risks, and to those who possess scarce talents. However, redistributive problems in India are exacerbated by a variety of sins of omission and commission of the Indian state. In the most recent phase of India's development, the Indian state has basically thrown its weight behind the winners of the new economy, without intervening much on the behalf of those left behind. It is this activist role of the state that has further contributed to growing inequalities. The Indian state thus continues to support Indian capital in various ways so as to enable it to grow. A plethora of public-private partnerships are also beginning to absorb public initiative and resources. By contrast, with declining public investments, India's agrarian sector and poorer states are falling behind. Since new private capital has not rushed into these areas, inequalities in India continue to grow, and the country's poor do not benefit as much from growth as they might under a modified policy regime. The buoyant economy has generated new public revenues in the hands of the Indian state. Given democratic pressures, some of these are now being committed to helping the poor. This is manifest in enhanced investments into primary education and public health on the one hand, and in creating new employment opportunities via public work programs, on the other hand. Since these new investments are not accompanied by new organizational initiatives, however, the capacity of the state to truly reach the needy remains limited. Still, these are important new initiatives; their success will only be clear over the next decade or so. Meanwhile, what is clear is that the Indian state's approach to helping India's poor has also undergone a basic change. In socialist India, the hope was to alter substantial inequalities by altering asset redistribution; much of this failed and has by now been abandoned. The new approach is more consistent with the principles of an evolving capitalist political economy: instead of attacking substantial inequalities, the Indian state now hopes to promote equality of opportunities.

3.6 REGIONAL VARIATIONS

India's states can be conveniently categorized into three types. First, state-level governments in some parts of India simply lack public purpose. Instead of using state authority and resources to pursue the public good, ruling elites in these settings use their power for personal and sectional gains. Bihar and Uttar Pradesh typify these **neo-patrimonial** states of India. Politics in these and a few other states of India tends to be under-institutionalized and instead characterized by some shared traits: the political arena is dominated by a single leader surrounded by loyal minions; modal political relationships are vertical, of a patron-client type; bureaucracy is politicized; symbolic appeals are used regularly to build diffuse political support; the zero-sum quality of politics makes those excluded from power feel totally excluded; and instead of any systematic public policy, leaders channel public resources for personalistic and narrow gains.

Understanding the causes and consequences of such neo-patrimonial tendencies in some of India's states is a complex research problem. Let us focus on these issues by focusing on one of India's major states, Uttar Pradesh. Among the key proximate causes of neo-patrimonial politics as modal politics in U.P. is the pervasiveness of ascriptive politics, especially politics of caste. In the past, say, during the 1950s and the 1960s, the Congress party exercised its hegemony in U.P. mainly by depending on Brahmins. While state politics in this early phase was not totally devoid of public purpose, the gains were monopolized by the upper castes, fueling cynicism. The eventual challenge to Brahmanical domination took the form, not of class politics, but of a challenge by the middle castes. As ascriptive politics is want to do**,** the political upsurge of the middle castes lacked any coherent ideology or organization; it quickly became politics of symbolic gains—e.g., with a focus on "reservations"— and of personalism and corruption. The most recent political challenge by the lowest castes in the form of rule by the Bahujan Samaj party has only accentuated these tendencies towards symbolic gains, personalism, and corruption. As to consequences, a focus on ascriptive politics has detracted attention in U.P. from issues that might serve the interests of the whole, such as economic growth; decline of public investments from the central government and apparent decentralization has only accentuated these problems. A focus on symbolic gains as a strategy for mobilizing fellow caste members also continues to detract attention from any systematic redistribution. The net result is that in states like U.P. both growth and distributive gains have been meager. Indian states in which governmental authority is used more constructively can be conveniently thought of as states that are either more on the left, or more on the right. Given democracy, these ideological tendencies can of course shift. Nevertheless, it is fair to characterize some such states of India as Kerala and West Bengal in recent periods as India's left-leaning states, with **social-democratic** tendencies. Politics in these states is typically characterized by mobilized lower classes and castes, on the one hand, and by the presence of a well-organized left-of-centre political party that systematically incorporates this mobilized support into a social-democratic power bloc, on the other hand. The presence of this power bloc, in turn, has added public purpose to the politics of India's left-leaning states. For example of West Bengal below to demonstrate how politics of this type emerged and how it was used to pursue certain constructive ends, such as tenancy reforms. While the redistributive successes in West Bengal are distinctly mixed, the case does suggest the proposition that redistributive success is most likely when effective governmental power rests on a broad political base; in such cases, rulers can minimize the hold of upper castes and classes on the regional state, successfully organize the middle and lower strata into an effective power bloc, and then use this power to channel resources to the poor. This proposition finds further support by juxtaposing India's southern states against the neo-patrimonial states of India's "Hindi-heartland." In spite of middling growth rates, poverty has come down relatively rapidly in all of India's southern states. This is in part a result of the fact that the social base of political power in these states has been relatively broad; the narrow domination of Brahmins was effectively challenged quite early in the first half of the twentieth century, and subsequently middle and lower strata provided active support to ruling parties. The social base of state power in southern states is thus distinct from that in Hindi-heartland states, where Brahmanical domination was challenged only relatively recently. The other factor that has contributed to the success of pro-poor politics in the South is the relative superiority of bureaucracy. A broader social base of power and more effective state machinery has led to better education and health provision in the South; subsidized public distribution system has also been better managed. In the more radical southern state of Kerala, land redistribution, higher wages for the landless, and gender equality have also been achieved. Finally, since economic liberalization and the related shift of initiative from the center to states, a few of India's states have actively and effectively promoted business and industry. These are India's more right-leaning states, approximating **developmental states** of sorts, in which the government has worked closely with business groups to promote economic growth. For example, Gujarat demonstrate the developmental state type of tendency in some of India's states. In addition to Gujarat, where the state government has mainly sought to promote manufacturing, leaders in such other states as Karnataka and Andhra Pradesh have actively supported service industries, and in Punjab and Haryana, agriculture and agriculture related industries. Gujarat has long been one of India's more industrialized states and the state government has long exhibited pro-business proclivities.

3.7 SUMMARY

To sum up, this section analyzes the political economy of contemporary India from a number of vantage points. There is a changing nature of the Indian state itself, focusing especially on its evolution away from socialism and towards an active partner of Indian capitalism. The pro-business proclivities of the Indian state have helped release economic dynamism, but have not strengthened the impulse to intervene effectively on behalf of India's poor. This section can be conclude by both situating the Indian case in a broader, comparative context and by focusing on the key challenge faced by India's democratic rulers, the challenge of inclusive growth.

3.8 QUESTIONS

Q.1 Define the term Inclusive growth.

Q.2 Discuss the henus of state and economy.

Q.3 Describe the detail the scenerio of Indian political economy from 1980 to 2010.

POVERTY IN INDIA, ESTIMATES AND METHODOLOGICAL CONTROVERSIES, HUMAN POVERTY – ENTITLEMENT, CAPABILITY APPROACH.

Structure

4.1 OBJECTIVES

After going through this lesson, you will be able to

- Define the concepts of poverty and poverty line.
- Evolution of Measurement of poverty in India.

- Issues in Poverty Estimation.
- Measures of Poverty.
- Explain the conceptual roots of capability approach.

4.2 INTRODUCTION

Poverty is a social phenomenon, where in a section of society is unable to fulfil even its basic necessitites of life. The goal of sustained poverty reduction cannot be achieved unless equality of opportunity and access to basic services is ensured.

4.3 POVERTY

The UN Human Rights Council has defined poverty as a human condition characterised by the sustained to chronic deprivation of the resources capabilities choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights.

Types of Poverty

The poverty has two aspects :

Absolute Poverty

It is a situation, in which the consumption or income level of people is less than some minimum level necessary to meet basic needs as per the national standards. It is expressed in terms of a poverty line.

Economists have given many definitions of poverty in this regard, but in a large number of countries poverty has been defined in the context of per-capita intake of calories and minimum level of per-capita consumption expenditure.

Calorie Criteria The energy that an individual gets from the food that he eats everyday is measured in terms of calories. In India, Planning Commission is of the opinion that an individual in rural area must get 2400 kilo calories and in urban area, 2100 calories per day.

Minimum Consumption Expenditure Criteria. An Expert Committee was appointed in 1962 by the Planning Commission to determine poverty line, by adopting

Minimum Consumption Expenditure Criteria. As per this committee those people will be treated as living below the poverty line whose per-capita consumption expenditure at 2004 below ₹368 per month in rural areas and below ₹559 per month in urban areas.

Relative Poverty

Relative poverty refers to poverty on the basis of comparison of per-capita income of different countries. The country, whose per-capita income is quite less in comparison to other countries is treated as relatively poor nation.

In poor nations, that part of population, which is, living at the bottom (whose income is less) is unable to fulfill the basic requirements of life. In the following table, India's per-capita income is compared with the per-capita income of some other countries.

Comparison of Per-Capita Income
(Year 2013)

Country	**Per capita Income** (in US dollars, on exchange rate basis) (in PPP terms)
USA	53101
UK	37307
Japan	36899
China	9844
Sri Lanka	6531
India	4077
Pakistan	3149

Source IMF

Poverty Line

Poverty line is the line which indicates the level of purchasing power required to satisfy the minimum needs of a person.

This line divides the population in two groups one of those, who have this purchasing power or more and the other group of those people who do not have this much of purchasing power.

The former group is regarded as living **Above the Poverty Line** (APL). These people are not regarded as poor. The latter group is considered as living Below the Poverty Line (BPL). These people are called poor.

Asian Development Bank has defined a new poverty line taking base of expenditure of US $ 1.35 per day.

According to the Tendulkar Committee Report which gives state wise poverty estimates, Odisha with 57.2% of BPL people is the poorest state followed by Bihar, Madhya Pradesh and Chhattisgarh.

4.4 EVOLUTION OF MEASUREMENT OF POVERTY IN INDIA

The Planning Commission is the nodal agency in the Government of India for estimation of poverty. It estimates the incidence of poverty at the national and state level separately in rural and urban areas. The incidence of poverty is measured by the poverty ratio, which is the ratio of number of poor to the total population expressed as percentage. It is also known as head-count ratio. The poverty ratio is measured from an exogenously determined poverty line quantified in terms of per capita consumption expenditure over a month and the class distribution of persons obtained from the large sample survey of consumer expenditure data of the National Sample Survey Office (NSSO).

After the Working Group of the Planning Commission delineated the methodology of poverty estimation in 1962, it has been intensely debated by the academicians, experts, policy planners, etc. over the years. In response, the Planning Commission has constituted Task Force/Expert Group from time to time to review the methodology. These include the Task Force under the chairmanship of Dr. Y. K. Alagh in 1977; the Expert Groups under the chairmanship of Prof. D.T. Lakdawala in 1989 and Prof. S.D. Tendulkar in 2005. This chapter takes a look at the evolution of the methodology of measurement of poverty as recommended by the Working Group 1962, Task Force (Alagh), Expert Group (Lakdawala) and Expert Group (Tendulkar).

Working Group (1962)

The Planning Commission constituted a Working Group in 1962 to find out a desirable minimum level of living for the population. The Working Group recommended that the national minimum consumption expenditure for a household of five persons (four adult consumption units) should be not less than Rs.100 per month or Rs.20 per capita per month in terms of 1960-61 prices. For urban areas, this figure was Rs.125 per month or Rs.25 per capita per month to cover the higher prices there. The poverty line excluded expenditure on health and education, both of which, it was assumed, were to be provided by the State.

The Working Group (1962) appeared to have taken into account the recommendation of balanced diet made by the Nutrition Advisory Group of the Indian Council of Medical Research (ICMR) in 1958. This poverty line was widely used in the 1960s and 1970s to estimate the poverty ratio at national and state level.

Task Force 1979: Alagh

The Planning Commission in July 1977 constituted the Task Force on "Projections of Minimum Needs and Effective Consumption Demand" under the Chairmanship of Dr. Y. K. Alagh. The Task Force submitted its report in January 1979 and the Planning Commission accepted its recommendations in the same month. The Task Force provided a quantitative measure of poverty by estimating:

(a) The average calorie requirements were estimated, separately for the all-India rural and urban areas as a population–weighted average of the age-gender-activity specific calorie allowances recommended by the Nutrition Expert Group (1968) by reference to the 1971 population Census.

(b) The poverty line corresponding to the calorie requirement

The estimated calorie norm was 2400 kcal per capita per day in rural areas and 2100 kcal per capita per day in urban areas. To work out the monetary equivalent of these norms, 28th Round (1973-74) NSS data relating to household consumption both in quantitative and value terms were used. Based on the observed consumer behaviour in 1973-74 it was estimated that, on an average, consumer expenditure (food and non-food) of Rs.49.09 per capita per month was associated with a calorie intake of 2400 per capita per day in rural areas and Rs.56.64 per capita per month with a calorie intake of 2100 per day in urban areas. This Monthly Per Capita Expenditure (MPCE) was termed as poverty line. The poverty lines for later years were estimated by updating the poverty lines of the year 1973-74 for price changes.

The Task Force used the percentage distribution of persons in different expenditure classes in the National Sample Survey (NSS) data on household consumer expenditure to estimate the percentage of persons living below the poverty line. The NSS distribution of private consumption was adjusted pro-rata to correspond to the consumption estimates of National Accounts Statistics (NAS) made by the Central Statistical Office (CSO). Using the poverty line and the adjusted distribution of persons by expenditure classes for the reference year the percentage of persons below the poverty line was estimated. Applying the projected population of the year, the number of persons in poverty was estimated from the percentage of persons. The poverty line was defined at national level (separately for rural and urban areas).

The poverty line defined by the Task Force at 1973-74 prices was updated by the Planning Commission (to estimate poverty for a later year) using the implicit CSO (Central Statistical Office) private consumption expenditure deflator. CSO in their national accounts publish the estimates of expenditure at current and constant prices. The ratio between the two yields the consumption deflator. Planning Commission used national poverty line uniformly for all states and Union Territories (UTs) to estimate.

Estimation of poverty by the Planning Commission following Task Force methodology, as is seen above, is based on the national poverty line and pro-rata adjustment of the NSS (National Sample Survey) consumption expenditure to NAS (National Accounts Statistics) consumption across all expenditure groups of the population. The adjustment whereby the discrepancy between the NAS and the NSS estimates of consumption is allocated on a prorata basis across all expenditure classes was debated by experts mainly because the discrepancy grew in later years and also because the discrepancy could not possibly be similar across all consumption expenditure deciles of the population. Besides, it was pointed out that the application of a single poverty line for all the states (though separate in rural and urban areas) implicitly, and dubiously assumes absence of price differential across the states. The estimate of poverty based on this methodology also assumed a fixed consumption basket of the poor overtime, and a uniform consumption basket for all the states.

The Planning Commission methodology for estimating poverty at national and state level was regarded by some as inappropriate in giving a representative picture of the incidence of poverty in the country. The main points of the criticism were:

(a) the adjustment procedure;

(b) the choice of deflators to represent price changes in the poverty line;

(c) application of the same poverty line in all the states, which imply the absence of price differentials across the states;

(d) use of a fixed consumption basket over time; and

(e) the uniform consumption basket for all the states.

The magnitude of poverty ratio based on this methodology fell significantly as the adjustment factor (i.e. the difference between the NSS and the NAS consumption) increased overtime. A lower level of poverty leads to a lower allocation not only in the antipoverty programmes, but also in the developmental programmes, as the latter also takes poverty as one of the criteria in its allocation, both inter- and intra-state. Faced with these odds, the Planning Commission constituted the Expert Group under the Chairmanship of Professor D.T. Lakdawala to re-visit the methodology of poverty estimation.

Expert Group 1993: Lakdawala

The Planning Commission, in September 1989, constituted the Expert Group on Estimation of Proportion and Number of Poor to "look into the methodology for estimation of poverty and to re-define the poverty line, if necessary". The Expert Group submitted its Report in July 1993. The Government accepted the Expert Group methodology in March 1997 as the basis for computing the official estimates of poverty in India.

The Expert Group (Lakdawala) did not redefine the poverty line. It retained the one defined by the Task Force (Alagh) which was at national level in rural and urban areas. It disaggregated these national poverty lines into state-specific poverty lines in order to reflect the inter-state price differentials.

i. The national rural poverty line of Task Force (Alagh) was disaggregated into state-specific poverty lines using inter-state price differentials measured by Fisher's Index. These state-specific poverty lines of base year (1973-74) were updated for subsequent years using state-specific price indices especially constructed by taking weighted average of the commodity group-wise Consumer Price Index of Agricultural Labourers (CPIAL) of (a) food (b) fuel and light, (c) clothing and footwear and (d) miscellaneous with their respective weights in the national consumption basket of the poor in 1973-74.

ii. The national urban poverty line of the Task Force was disaggregated into state-specific poverty lines in a similar way as in the case of the rural poverty line using state-specific price indices and inter-state price differentials. The state-specific price indices were constructed by taking weighted average of the commodity group-wise Consumer Price Index of Industrial Workers (CPIIW) of (a) food (b) fuel and light (c) housing (d) clothing, bedding and footwear and (e) miscellaneous with their respective weights in the national consumption basket of the poor in 1973-74.

iii. The national (All-India) poverty line in the Expert Group (Lakdawala) method was worked out as an interpolated value from the national consumption distribution obtained from the NSS consumer expenditure data and the national poverty ratio. The national poverty ratio was estimated as a population-weighted average of the state-wise poverty ratios, separately for rural and urban areas.

The Expert Group (Lakdawala) calculated the state-specific poverty ratios in rural and urban areas from the state-specific poverty lines and the state-specific distribution of persons by expenditure groups obtained from large sample surveys on household consumer expenditure of the National Sample Survey Office (NSSO), which are available once in approximately five years. The NSS consumption distribution was used as it is, that is without adjustment to the NAS (National Accounts Statistics) consumption. This was a major departure from the Task Force method, which did this adjustment on a pro-rata basis. The aggregate poverty ratio of the state was worked out by combining its rural and urban poverty ratios. The national poverty ratio was computed as weighted average of state-wise poverty ratios.

The Expert Group (Lakdawala) could estimate the poverty lines in rural and urban areas of eighteen States. These eighteen states are: Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, West Bengal and Delhi. In the remaining States/UTs, the poverty lines could not be computed similarly because of nonavailability of state-specific prices data. In these States, the poverty ratios were equated with one of these eighteen states based on the criteria of physical contiguity of areas and similarity of economic profile. This resulted in the adoption of (a) the poverty ratio of Assam for Arunachal Pradesh, Meghalaya, Mizoram, Manipur, Nagaland, Tripura and Sikkim; (b) the poverty ratio of Tamil Nadu for Pondicherry and Andaman and Nicobar Islands; (c) the poverty ratio of Kerala for Lakshadweep; (d) the poverty ratio of Goa for Daman and Diu; (e) Urban poverty ratio of Punjab for both rural and urban areas of Chandigarh.

Two factors largely distinguish the Expert Group (Lakdawala) methodology of poverty estimation from those of the Task Force (Alagh). First, the Expert Group (Lakdawala) method uses state-specific poverty lines as against national poverty line for estimation of poverty in the state; it thereby captures the cost of living in the states more accurately (as compared to the Task Force method). Second, the Expert Group (Lakdawala) uses the state-wise consumption distribution of the NSS without any adjustment to the NAS consumption. This is a major departure from the Task Force method, which did this adjustment on a pro-rata basis.

In March 1997, the Government adopted the Expert Group (Lakdawala) methodology for poverty estimation as the basis for computing the official estimates of poverty and using this methodology the Planning Commission estimated the poverty ratios in rural and urban areas of different States/UTs for the year 1973-74 (NSS 28th Round consumer expenditure data, which was used to estimate the poverty line by the Task Force), and for the years 1977-78, 1983, 1987-88 and 1993-94 for which the large sample survey consumer expenditure data were then available from the 32nd, 38th, 43rd and 50th Rounds of the NSS. Subsequently, using the same methodology the

Planning Commission estimated the poverty ratios at the national and states level for the years 1999-2000 and 2004-05, using the NSS large sample survey consumer expenditure data of 55th and 61st Rounds respectively.

The official estimate of poverty was derived by the Planning Commission using the Expert Group (Lakdawala) methodology until January 2011. The poverty ratio (i.e., the percentage of people living below the poverty line) and the number of poor for different years at the national level estimated from the Expert Group (Lakdawala) method are given in Table 4.1

Table 4.1: Poverty Ratio and Number of Poor: Expert Group (Lakdawala) Method

Year	Poverty Ratio (%)			Number of Poor (million)		
	Rural	Urban	Total	Rural	Urban	Total
1973-74	56.4	49.0	54.9	261.3	60.0	321.3
1977-78	53.1	45.2	51.3	264.3	64.6	328.9
1983	45.7	40.8	44.5	252.0	70.9	322.9
1987-88	39.1	38.2	38.9	231.9	75.2	307.1
1993-94	37.3	32.4	36.0	244.0	76.3	320.3
2004-05 (URP)	28.3	25.7	27.5	220.9	80.8	301.7

Note: URP = consumption = Uniform Recall Period consumption in which the consumer expenditure data for all the items are collected from 30-day recall period.

Expert Group (Tendulkar)

The Expert Group under the chairmanship of Suresh D. Tendulkar was constituted by the Planning Commission in December 2005. It was mandated to: (a) examine the issues relating to the comparability of the NSS 50th (1993-94), NSS 55th (1999-2000) and NSS 61st (2004-05) Round consumer expenditure data and suggest methodologies for deriving such comparability with past and future survey data; (b) review alternative conceptualizations of poverty, and associated technical aspects of procedures of measurement and data base for empirical estimation including procedures for updating over time and across states, and (c) recommend any changes in the existing procedures of official estimates of poverty. The Expert Group (Tendulkar) submitted its recommendations to the Planning Commission in November 2009.

The Expert Group (Tendulkar) did not construct a poverty line. It adopted the officially measured urban poverty line of 2004-05 based on Expert Group (Lakdawala) methodology and converted this poverty line (which is URP-consumption based) into MRP consumption. The method of estimation of poverty line and poverty ratio suggested by the Expert Group (Tendulkar) is described in the following three steps.

Step 1: Convert the URP-consumption based urban poverty line into MRP consumption based poverty line (MRP distribution = consumer expenditure data is collected using 365-day recall period for five non-food items viz., clothing, footwear, durable goods, education and institutional medical expenses, and 30-day recall period for the remaining items). Here, the MRP-consumption based urban poverty line is worked out as the level of per capita consumption expenditure in the MRP consumption distribution that corresponds to the bottom 25.7 per cent of the population, which is the official urban poverty ratioderived from the Expert Group (Lakdawala) methodology using the poverty line and the class distribution of consumption, both based on URP-consumption.

Step 2: State-specific urban poverty lines are derived from the (MRP-consumption based) national urban poverty line using urban state-relative-to-all-India fisher indices.

Step 3: The state-specific rural poverty lines are worked out from the state-specific urban poverty lines by applying within-state rural-relative-to-urban Fisher indices.

Here, the state index numbers relative to the all-India numbers and the state-specific rural prices relative to the state-specific urban prices are computed from the implicit price indices derived from the quantity and value of different items of consumer expenditure gathered in the NSS consumption expenditure.

The state-specific poverty ratios are estimated from the state-specific class distribution of persons obtained from the MRP-consumption distribution of the NSS consumer expenditure and the state-specific poverty line. The national poverty ratio is estimated as a weighted average of state-wise poverty ratios.

The national urban poverty ratio in 2004-05 as per the Expert Group (Tendulkar) methodology is identical to the one estimated by the Expert Group (Lakdawala) methodology, which is 25.7 percent. The shift from MPCE estimates on URP (that underlay the poverty ratio with the Lakdawala methodology) to those on MRP in the Expert Group (Tendulkar) methodology significantly raised the all-India Urban poverty line level of MPCE from 538.60 to Rs 578.80. Associated with this higher cut-off level of MPCE is also different poverty line basket (PLB) as compared to that underlying the all-India urban poverty ratio as per Expert Group (Lakdawala). All other poverty lines for the rural and urban areas of individual states proposed by the Expert Group (Tendulkar) are aligned to this new PLB at a higher level of MPCE. In Tendulkar Committee report, it is stated that:

" As urban living standard is generally regarded as better than and preferable to its rural counterpart, this Expert Group recommends that the purchasing power represented by the MRP equivalent PCTE underlying the all-India HCR of 25.7 percent be taken as the new reference PLB for measuring poverty and made available to both the rural and urban population in all the states after correcting for urban-rural price differentials as well as urban and rural state-relative-to all-India price differentials."

In the Expert Group (Tendulkar) methodology, the all-India rural poverty ratio is obtained in the same way as in the Expert Group (Lakdawala). The all-India rural poverty ratio so derived, at 41.8 percent is one and a half times the estimate of Expert Group (Lakdawala) which was 28.3 percent.

A key element in the Expert Group(Tendulkar) methodology is the derivation of the reference AIl-India poverty line basket(PLB) as one corresponding to the MRP-equivalent of MPCE corresponding to the all-India urban HCR on URP as per the Expert Group (Lakdawala) methodology. It asserts that "the urban proportion (of 25.7 percent) is less controversial in terms of the broad order of magnitude of extent of poverty". The phrase "less controversial" is to be seen in the context of its observation that "the latest official estimate of rural poverty is widely perceived to be too low".

While two reasons are advanced in respect of its observation on rural HCR —(i) understated price-adjustment and (ii) "its basis of a very old and out-dated 1973-74 poverty line basket", the assertion about the corresponding urban HCR as being "less controversial" remains just that: an assertion without any evidence or reasoning. Other analysts have estimated urban poverty levels different from the official estimates.

The Expert Group (Tendulkar) outlined the methodology for updation of the state specific rural and urban poverty lines of 2004-05 for future years. (The updation is carried out by adjusting the urban state-specific poverty lines of 2004-05 with the Fisher index of changes in state-level urban prices between 2004-05 and later years (for example, 2009-10 and 2011-12) to derive state-level urban poverty lines for later years. Thereafter, the state 18 specific rural poverty lines for later years are derived by applying the within-state ruralrelative-to-urban Fisher indices to updated urban poverty lines.

The Planning Commission released estimates of poverty for 1993-94 and 2004-05 derived from the Expert Group (Tendulkar) method in January 2011. Subsequently, based on the same methodology, the poverty ratio for 2009-10 and 2011-12 were derived by the Planning Commission in March 2012 and July 2013 respectively. The estimate of poverty ratio and number of poor at the national level for the years 1993-94, 2004-05, 2009-10 and 2011-12 derived from the Expert Group (Tendulkar) methodology are given in Table 4.2. The rate of decline in poverty ratio during different period is given in Table 4.3.

Table 4.2: Percentage and Number of Poor Estimated from Expert Group (Tendulkar) Methodology

Year	Poverty Ratio (%)			Number of Poor (million)		
	Rural	Urban	Total	Rural	Urban	Total
1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2004-05	41.8	25.7	37.2	326.3	80.8	407.1
2009-10	33.8	20.9	29.8	278.2	76.5	354.7
2011-12	25.7	13.7	21.9	216.7	53.1	269.8

Table 4.3: Decline in Poverty Ratio Estimated from Expert Group (Tendulkar) Methodology **%age points per year**

Period	Rural	Urban	Total
1993-94 to 2004-05	0.75	0.55	0.74
2004-05 to 2011-12	2.32	1.69	2.18
1993-94 to 2011-12	1.36	1.01	1.30

4.5 ISSUES IN POVERTY ESTIMATION

There are some key issues in the various poverty estimations which need to be discussed.

Poverty Line Basket or PLB: All-India or State-Specific baskets

The first question is of the use of a single all-India poverty line (or, rather, a poverty line basket or PLB) to derive state – specific, rural-urban basket of goods and services the access (or, otherwise) to which separates the poor from the non-poor. This becomes crucial in a continental-sized country such as ours that is marked by significant variability in living environment (including, but not limited to, climatic conditions), in dietary patterns and preferences and, in prices of goods and services across states and as between rural and urban areas even within the same state. This issue was explicitly raised by Mr. S. Guhan (Member, Export Group (Lakdawala) in the context of both, the practice followed by the Planning Commission on the adoption of the recommendations of the 1979 Task Force (Alagh) as well as the recommendations of the Expert Group (Lakdawala).

On a careful consideration of this issue, the Expert Group (Lakdawala) came to the conclusion that, having decided to accept the minimum living standard for defining poverty line normatively, "it should be applied uniformly to all parts of the country for assessing poverty. The commodity basket corresponding to this norm should be standardised at the national level and applied to all States. This is being recommended in order to enable comparability across states and overtime". (GOI, 1993 P.31). This view was also implicitly endorsed by the Expert Group (Tendulkar).

The practice followed by the Planning Commission on the acceptance of the recommendations of the 1979 Task Force (Alagh) and Expert Group (Lakdawala), up to and until the adoption of the recommendations of the Expert Group (Tendulkar), has been to work with two separate poverty line baskets for the rural and urban areas at the all India level and deriving State-specific poverty cut-offs by adjustments for price-differentials. On a view that "Urban living standard is generally regarded as better than and preferable to its 33 rural counterpart", the Expert Group (Tendulkar) recommended that the purchasing power represented by the MRP-equivalent PCTE (MPCE) underlying the all-India (urban) HCR of 25.7 percent be taken as the new reference PLB for measuring poverty and made available to both the rural and urban population in all the states after correcting for urbanrural price differentials as well as urban and rural state-relative-to-all-India price differentials".

The Expert Group (Rangarajan) proposes to revert back to the earlier practice of having separate all India poverty line baskets for rural and urban areas by reference to which the state-level & rural and urban poverty lines will be derived. Income or Consumption Expenditure.

It would be clear from the common reference to poverty line basket of goods and services in the methodologies of the 1979 Task Force (Alagh) and the Lakdawala and Tendulkar Expert Groups that the underlying metric of living standards is consumption expenditure rather than incomes of the households. This conscious decision follows from the significant difficulties of capturing household incomes through recall-based (typically with a 30-day reference period) surveys canvased over a moving sample of households.

These difficulties are particularly sizeable in the case of households with selfemployment as the principal source of income. In the case of such households, the flow of incomes may be staccato – at the time of harvests in the case of agriculture, uneven over the year (as in trading) or uncertain (in agriculture). Also, these households may be drawing incomes from more than one enterprise where a major proportion of these enterprises do not maintain full accounts/balance-sheets. Consequently, even in the absence of will-full under-reporting of incomes, there are serious problems in capturing the incomes of self-employed households. As per the NSS 68th Round (2011-12) survey, selfemployed households form 49.8% of all households in rural India and 35.3% percent of all urban households.

In the case of households dependent on wage employment getting a measure of their wage incomes is possible from the NSS Employment-Unemployment Surveys. Even in this case, however, households dependent on casual wage labour (accounting for 34.5% of rural households and 11.8% of urban households) face considerable intra – year variability in income flows from casual labour since they are not assured of employment 34 through the year. This problem is absent in the case of households having regular wage/salaries employment as their principal source of income. However, even in the case of these households, problems of capturing their incomes from their non-labour assets remain.

If estimating wage incomes from employment surveys pose the above noted problems, capturing both income and expenditure of the households pose even greater difficulties. These have been brought out clearly by the NSS Pilot survey on Income and Expenditure. Given the length and the complex nature of the survey schedules for the Consumer Expenditure and Employment Unemployment Surveys, there are serious concerns about respondent fatigue affecting the quality of responses and the resulting non-sampling errors. This has prompted the NSSO to discontinue, after the 50th Round (1993-94), canvassing both schedules from the same sample households. They are now canvassed over a different set of sample households drawn from the same universe.

Notwithstanding these problems, the CMIE has carried out a very interesting exercise in locating the poor households by reference to their ability or otherwise to have at the least a small margin of saving by way of excess of their incomes over their consumption expenditure. This provides valuable insights into the dynamic processes underlying poverty in India and hence is included in this Report **Nutrition Norms, Nutrition Content of Food Basket and Nutrition Outcomes:**

Post the acceptance of the report of the 1979 Task Force (Alagh), the calorie norms developed by the Task Force became the basis of the official all India PLB ,separately for the rural and urban populations , and their price- adjusted monetary equivalents became the state-level poverty lines on the recommendations of the Expert Group (Lakdawala). However, Expert Group (Tendulkar) consciously moved away using calorie norms to derive the all India PLB," In view of the fact that calorie consumption calculated by converting the consumed quantities (of food) in the last 30-days as collected by NSS has not been found to be well correlated with the nutrition outcomes observed from other specialized surveys either over time or across space (i.e. between states or rural and urban areas)”. This position merits a very careful review.

Our first comment is a re-iteration of a point clearly spelt out by Expert Group (Lakdawala). We quote, “This way of deriving the poverty line (linked to the calorie norms), 35 while being anchored in a norm of calorie requirement, does not seek to measure the nutritional status, and more specifically the incidence of malnourishment or undernourishment”

Second, over time there have been significant shifts in consumption patterns. We have a sizeable reduction in the share of food in total expenditure, and, within food, a significant reduction in the share of calorie-rich cereals. Even the composition of cereal consumption shows a shift from coarse cereals to the more expensive source of calories - rice and wheat. Broadly speaking, there has been a shift away from a calorie-intensive diet towards a more diversified food basket richer in proteins and fats.

Adjusting Poverty Lines for Spatial and Inter-temporal Variations in Prices: Evolution of the Methodology

In implementing the 1979 Task Force (Alagh), the Planning Commission used a single common all-India poverty line for all the States—albeit separate ones for the Rural and the Urban populations. For adjusting the all-India poverty lines for price-inflation over time the Wholesale Price Index (WPI, for short) was used to adjust both the rural and the urban poverty lines. This posed the obvious problem that the WPI had a substantial weightage for items that were not of the consumption basket of the households. Subsequently, the Planning Commission used the implicit deflator underlying the current and the constant price values of PFCE in the National Accounts. This, too, did not provide separate indicators for the rural and the urban populations.

4.6 MEASURES OF POVERTY

The extent of poverty is depicted by the following measures:-

Head Count Ratio or Poverty Ratio

It is calculated by dividing the number of people below poverty line by the total population. It measures the proportion of poor in the total population.

Poverty Gap Index (PGI)

It is the difference between the poverty line and the average income of all households living Below Poverty Line (BPL) expressed as a percentage of poverty line. It indicates the depth and severity of poverty.

$$\text{PGI} = \frac{\text{Poverty Line} - \text{Average Income of BPL}}{\text{Poverty Line}}$$

Squared Poverty Gap Index

It is the mean of the squared individual poverty gap below to the poverty line. It indicates the severity of poverty as well as the inequality among the poor.

Sen Index of Poverty

It was developed by Professor Amartya Sen. It is based on the head count ratio poverty gap index and the Gini co-efficient. It takes into account the extent and severity of poverty as well as inequality. It is expressed as

$S = H [I + (1 - 1) G]$

where S = Sen index of poverty

H = Head count index

I = Poverty gap index and

G = Gini co-efficient

Multi-Dimensional Poverty Index (MPI)

It was developed in 2010 by Oxford Poverty and Human Development Initative and the United Nations Development Programe. It uses different factors to determine poverty beyond income-based lists. It uses a range of deprivations that affect an individual's life.

The measure assesses the nature and intensity of poverty at the individual level in education, health outcomes and statement of living. The MPI is calculated as follows

$MPI = H \times A$

where H = Percentage of people who are MPI poor

(Incidence of poverty)

A = Average intensity of MPI poverty across the poor (%)

Human Poverty Index (HPI)

- Earlier UNDP set HPI as parameter to measure poverty in its Human Development Reports but 2010 onwards it switched over to a new parameter, namely– Multidimensional Poverty Index (MPI).

- The measure assesses the nature and intensity of poverty at the individual level in education. Health out comes and standards of living.

Fisher Price Index (FPI)

- It updates the poverty line on the basis of actual consumption data. This index gives just 60% weightage to food articles.

- The reason why Tendulkar's method show higher poverty level is primarily that he has moved away from the traditional practice of bench marking poverty by certain caloric consumption levels.

Expert Groups for Estimating Poverty

Rangarajan Committee on Poverty

Planning Commission constituted an expert group headed by Rangarajan to review the Tendulkar Committee methodology for estimating growth in May, 2012. Perspective of people about poverty has changed, therefore, commission needs to take a fresh look into the methodology for estimation of poverty in the country. The committee submitted its report on 6th July, 2014 to the Planning Commission.

The report observed that the population, living below poverty line, has decreassed from 38.2% in 2009-10 to 29.5% in 2011-12. This report thus contended the facts given by the Tendulkar Committee. The Rangarajan report also revsied the poverty line by increasing it to ₹ 972/month (or ₹ 32/day), as against the ₹ 816/ month suggested by the Tendulkar Committee for the urban areas, the Rangarajan Committee revised the poverty line to ₹ 1407/month (₹ 47/day), as against ₹ 1000/- month of the Tendulkar Committee.

UN Report on Indian Poverty

In the Millennium Development Report, 2010, it has been mentioned that the poverty rate in India was 51% in 1990. However, it is expected to fall to a level of 24% by 2015. According to the UNDP, the 8 poorest Indian states – Bihar, Chhatisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh and West Bengal have more number of poor, than the 26 poorest African nations.

Measurement of Poverty by UNDP

As per UNDP, poverty is a multi-dimensional problem. Apart from income, it also includes factors like-health and nutrition. World Bank has established 2 parameters to measure poverty at the international level.

– Those earning less than 1.25 US $ per day, such persons are referred as suffering from extreme poverty.

– Those spending less than 2 US $ per day. These sections are referred to as poor.

Besides these parameters, Lorenz Curve and Gini Co-efficient are also used to observed poverty in a state. The Asian Development bank (ADB) has set the parameter of US $ 1.35; while Indian Goverment has set this parameter at US $ 1.02.

State of Poverty (World Bank Report)

World Bank, on 18th April, 2013, in its report emitted, where are the poor and most poor, observed that

– one-third of the global poor, in India

– the poor in the India live on less than US$ 1.25 a day

– there are around 120 crore extremely poor person in the world today.

– between 1981-2010, the developing countries have witnessed a decline in poverty rate from 50% to 21%.

– despite development in Africa, poverty is still widespread.

Tendulkar Committee Report

Tendulkar Committee headed by Prime Minister's Economic Advisor, Mr. Suresh Tendulkar was set-up in March 2009 to look into the methodology of estimating poverty in India. Tendulkar Committee submitted its report in December 2009 to the Planning Commission.

In its findings the committee has money away from just calorie criterion definition to a broader definiton of poverty that also includes expenditure on health education clothing in addition to food.

Using this approach, new poverty line for the year 2004-05, has been raised from ₹ 356 per-capita per month to ₹ 447 per-capita per month in rural areas and from ₹ 539 per capita per month to ₹ 579 per capita per month in urban areas. In daily terms, poverty line has been raised from ₹ 12 to ₹ 15 per capita per day in rural areas and from ₹ 18 per-capita per day to ₹ 19 per-capita per day in urban areas.

As per Tendulkar Committee Report, 32.2% at Indian population is living below poverty line using 'uniform recall period consumption' in the year 2004-05, against the official estimate of 27.5% According to the report, 41.8% population in rural areas and 25.7% population in urban areas is living below poverty line.

The new, updated data released by the commission based on the price indices computed from the 66th Round NSS (2009-10) data on Household Consumer Expenditure Survey, say anyone who has ₹ 28 to spend daily is out of poverty.

It has estimated the poverty lines at all India level as MPCE (Monthly Per-Capita Consumption Expenditure) of ₹ 673 for rural areas and ₹ 860 for urban areas in 2009-10.

Based on these cut-offs, the percentage of people living below the poverty line in the country has declined from 37.2% in 2004-05 to 21.92% in 2011-12.

Thus, poverty has declined on an average by 1.5 percentage points per year between 2004-05 and 2009-10. The annual average rate of decline during the period 2004-05 to 2009-10 is twice the rate of decline during the period 1993-94 to 2004-05.

4.7 HUMAN POVERTY

For many years, approaches to poverty in the international development and policy-making world were obtuse in human terms. They focused on economic growth as the primary goal of development and measured quality of life simply by looking at GNP per capita. That crude measure, of course, did not even take distribution into account, and thus was utterly useless in confronting nations with a lot of poverty and high rates of inequality. And it was actually worse than useless, because it gave high marks to nations that contained huge inequalities, encouraging people to think that such nations (for example, South Africa under apartheid) had done things right. Moreover, as that example shows, the GNP approach also failed to take cognizance of other aspects of the quality of life that are not well correlated with economic advantage, even when distribution is factored in: aspects such as health, education, gender, and racial justice. And once again, by suggesting that things were well done when nations increased their GNP, it positively distracted attention from these factors, so crucial to taking the full measure of poverty. Today, a different approach is prominent: the capabilities approach, represented in the *Human Development Reports* of the UNDP. As the late Mahbub Ul Haq wrote in the first of those reports, in 1990 "The real wealth of a nation is its people. And the purpose of development is to create an enabling environment for people to enjoy long, healthy, and creative lives. This simple but powerful truth is too often forgotten in the pursuit of material and financial wealth." If one ask not about GNP only, but about what people are actually able to do and to be, one come much closer to understanding the barriers societies have erected against full justice for women and the poor. Sen and Nussbaum criticized approaches that measure well-being in terms of utility by pointing to the fact that deprived people frequently exhibit "adaptive preferences," preferences that have adjusted to their second-class status. Thus, the utilitarian framework, which asks people what they currently prefer and how satisfied they are, proves inadequate to confront some pressing issues of justice. Amartya Sen, was the primary architect of capability approach. Throughout this career, Amartya Sen has been preoccupied with questions of social justice. Against the dominant emphasis on economic growth as an indicator of a nation's quality of life, Sen has insisted on the importance of *capabilities*, what people are actually able to do and to be.

4.8 ENTITLEMENT APPROACH

Entitlements have been defined by Sen as "the set of alternative commodity bundles that a person can command in a society using the totality of rights and opportunities that he or she faces". It should be noted immediately that this is a descriptive rather than a normative concept; entitlements derive from legal rights rather than morality or human rights. Sen concludes *Poverty and Famines* with this famous observation: "The law stands between food availability and food entitlement. Starvation deaths can reflect legality with a vengeance". There is clearly something odd—at best uncomfortable, at worst "defective"—with an analytical approach that appropriates a normative term like "entitlement" and strips it of all ethical connotations.

In Sen's framework, people destituted by famine are not entitled to food; instead they are "entitled to starve". Despite its normative connotation, entitlements "does not reflect in any sense a concept of the right to food". A person's "entitlement set" is the full range of goods and services that he or she can acquire by converting his or her "endowments" (assets and resources, including labour power) through "exchange entitlement mappings". In the context of poverty and famine, the entitlement approach aims comprehensively to describe all legal sources of food, which Sen reduces to four categories: "production-based entitlement" (growing food), "trade-based entitlement" (buying food), "own-labour entitlement" (working for food) and "inheritance and transfer entitlement" (being given food by others). Individuals face starvation if their full entitlement set does not provide them with adequate food for subsistence. Famine scales this up: occupationally or geographically related groups of people face famine if they simultaneously experiencecatastrophic declines in their entitlements.

4.9 CONCEPTUAL ROOTS OF CAPABILITY APPROACH

Immanuel Kant argues in his *Grundlegung zur Metaphysik de Sitten,* for the necessity of seeing human beings as ends in themselves, rather than as means to other ends: "So, act as to treat humanity, whether in thine own person or in that of any other, in every case as an end withal, never as means only." This principle has importance in many contexts even in analysing poverty, progress and planning. Human beings are the agents, beneficiaries and adjudicators of progress, but they also happen to be– directly or indirectly–the primary means of all production. This dual role of human beings provides a rich ground for confusion of ends and means in planning and policy-making. Indeed, it can–and frequently does–take the form of focusing on production and prosperity as the essence of progress, treating people as the means through which that productive progress is brought about (rather than seeing the lives of people as the ultimate concern and treating production and prosperity merely as means to those lives). Indeed, the widely prevalent concentration on the expansion of real income and on economic growth as the characteristics of successful development can be precisely an aspect of the mistake against which Kant had warned. This problem is particularly pivotal in the assessment and planning of economic development. The problem does not, of course, lie in the fact that the pursuit of economic prosperity is typically taken to be a major goal of planning and policy-making. This need not be, in itself, unreasonable. The problem relates to the level at which this aim should be taken as a goal. Is it just an intermediate goal, the importance of which is contingent on what it ultimately contributes to human lives? Or is it the object of the entire exercise? It is in the acceptance–usually implicitly–of the latter view that the ends–means confusion becomes significant–indeed blatant. The problem might have been of no great practical interest if the achievement of economic prosperity were tightly linked–in something like a one-to-one correspondence–with that of enriching the lives of the people. If that were the case, then the pursuit of economic prosperity as an end in itself, while wrong in principle, might have been, in effect, indistinguishable from pursuing it only as a means to the end of enriching human lives. But that tight relation does not obtain. Countries with high GNP per capita can nevertheless have astonishingly low achievements in the quality of life, with the bulk of the population being subject to premature mortality, escapable morbidity, overwhelming illiteracy and so on. Just to illustrate an aspect of the problem, the GNP per capita of six countries is given in Table I, along with each country's respective level of life expectancy at birth.

TABLE: I

ECONOMIC PROSPERITY AND LIFE EXPECTANCY, 1985

Country	GNP per capita	Life expectancy at birth
China	310	69
Sri Lanka	380	70
Brazil	1640	65
South Africa	2010	55
Mexico	2080	67
Oman	6730	54

Source: World Development Report 1987 (New York, Oxford University Press, 1988)

A country can be very rich in conventional economic terms (i.e., in terms of the value of commodities produced per capita) and still be very poor in the achieved quality of human life. South Africa, with five or six times the GNP per capita of Sri Lanka or China, has a much lower longevity rate, and the same applies in different ways to Brazil, Mexico, Oman, and indeed to many other countries not included in this table. There are, therefore, really two distinct issues here. First, economic prosperity is no more than one of the means to enriching lives of people. It is a foundational conclusion to give it the status of an end. Secondly, even as a means, merely enhancing average economic opulence can be quite inefficient in the pursuit of the really valuable ends. In making sure that development planning and general policy making do not suffer from costly confusions of ends and means, we have to face the issue of identification of ends, in terms of which the effectiveness of the means can be systematically assessed.

The particular line of reasoning that will be pursued here is based on evaluating social change in terms of the richness of human life resulting from it. But the quality of human life is itself a matter of great complexity. The approach that will be used here, which is sometimes called the "capability approach", sees human life as a set of "doings and beings"–we may call them "functionings"–and it relates the evaluation ofthe quality of life to the assessment of the capability to function. The roots of the approach go back at least to Adam Smith and Karl Marx, and indeed to Aristotle. In investigating the problem of "political distribution", Aristotle made extensive use of his analysis of "the good of human beings", and this he linked with his examination of "the functions of man" and his exploration of "life in the sense of activity". The Aristotelian theory is, of course, highly ambitious and involves elements that go well beyond this particular issue (e.g., it takes a specific view of human nature and relates a notion of objective goodness to it). But the argument for seeing the quality of life in terms of valued activities and the capability to achieve these activities has much broader relevance and application. Among the classical political economists, both Adam Smith and Karl Marx explicitly discussed the importance of functionings and the capability to function as determinants of well-being. Marx's approach to the question was closely related to the Aristotelian analysis (and indeed was apparently directly influenced by it). Indeed, an important part of Marx's programme of reformulation of the foundations of political economy is clearly related to seeing the success of human life in terms of fulfilling the needed human activities. Marx put it thus: "It will be seen how in place of the wealth and poverty of political economy come the rich human being and rich human need. The rich human being is simultaneously the human being in need of a totality of human life-activities–the man in whom his own realization exists as an inner necessity, as need."

The Endowment and Exchange

The entitlement approach to starvation and famines concentrates on the ability of people to command food through the legal means available in the society, including the use of production possibilities, trade opportunities, entitlements via-a-vis the state, and other methods of acquiring food. A person starves either because he does not have the ability to command enough food, or because he does not use this ability to avoid starvation. The entitlement approach concentrates on the former, ignoring the latter possibility. Furthermore, it concentrates on those means of commanding food that are legitimized by the legal system in operation in that society. While it is an approach of some generality, it makes no attempt to include all possible influences that can in principle cause starvation, for example illegal transfers (e .g. looting), and choice failures (e.g. owing to inflexible food habits).

Ownership of food is one of the most primitive property rights, and in each society there are rules governing this right. The entitlement approach concentrates on each person's entitlements commodity bundles including food and views starvation as resulting from a failure to be entitled to a bundle with enough food.

In a fully directed economy, each person may simple get a particular commodity bundle which is assigned to him. To a limited extent this happens in most economies, e .g. to residents of old people homes or of mental hospitals. Typically, however, there is a menu-possibly wide to choose from. E, is the entitlement of person in a given society, in a given situation, and it consists of set of alternative commodity bundles, any one which the person can decide to have. In an economy with private ownership and exchange in the form of trade (exchange with others) and production (exchange with nature), E_i can be characterized as depending on two parameters, viz. the endowment of the person (the ownership bundle) and the exchange and the Famines entitlement mapping (the function that specifies the set of alternative commodity bundles that the person can command respectively for each endowment bundle). For example, a peasant has his land, labour power, and a few other resources, which together make up his endowment. Starting from that endowment he can produce a bundle of food that will be his. Or, by selling his labour power, he can get a wage and with that buy commodities, including food. Or he can grow some cash crops and sell them to buy food and other commodities. There are many other possibilities. The set of all such available commodity bundles in a given economic situation is the exchange entitlement of his endowment. The exchange entitlement mapping specifies the exchange entitlement set of alternative commodity bundles respectively for each endowment bundle.

The exchange entitlement mapping, or E-mapping for short, will depend on the legal, political, economic and social characteristic of the society in question and the Person's position in it. Perhaps the simplest case in terms of traditional economic theory is one in which the endowment bundle can be exchanged in the market at fixed relative prices for any bundle costing no more, and here the exchange entitlement will be a traditional 'budget set'.

Bringing in production will make the E-mapping depend on production opportunities as well as trade possibilities of resources and products. It will also involve legal rights to apportioning the product, e.g. the capitalist rule of the 'entrepreneur' owning the produce. Sometimes the social conventions governing these rights can be very complex indeed-for example those governing the rights of migrant members of peasant families to a share of the peasant output (see Sen, 1975).

Social security provisions are also reflected in the E-mapping, such as the right to unemployment benefit alone fails to find a job, or the right to income supplementation if one's income would fall otherwise below a certain specified level. And so are employment guarantees when they exist-as they do in some socialist economies—giving one the option to sell one's labour Power to the government at a minimum price. E-mappings will depend also on provisions of taxation.

Let the set of commodity bundles, each of which satisfies person's minimum food requirement, be F_i. Person i will be forced to starve because of unfavourable entitlement relations if and only if he is not entitled to any member of F_i given his endowment and his exchange entitlement mapping. The 'starvation set' S, of endowments consists of those endowment bundles such that the exchange entitlement sets corresponding to them contain no bundles satisfying his minimum food requirements.

Limitation of the entitlement approach

Before proceeding to the use of entitlement approach, a few of the limitation may be briefly noted. First, there can be ambiguities in the specification of entitlements. Even in capitalist market economies, entitlements may not be well defined in the absence of a market-clearing equilibrium, and in pre-capitalist formations there can be good deal of vagueness on property rights and related matters. In many cases the appropriate characterization of entitlements may pose problems, and in some cases it may be well be best characterized in the form of fuzzy sets and related structures—taking precise note of the vagueness involved. In empirical studies of actual famines the question of precision is compromised by data problems as well, and the focus here will be not on characterizing entitlements with pretended exactitude, but on studying shifts in some of main ingredient of entitlements. Big shifts in such ingredients can be decisive in causing entitlement failure, even when there is some fuzziness in the entitlement relations.

Second, while entitlement relations concentrate on rights within the given legal structure in that society, some transfers involve violation of these rights, such as looting or brigandage. When such extra-entitlements transfers are important, the entitlement approach to famines will be defective. On the other hand, most recent famines seem to have taken place in societies with ‘Law and order’, without anything illegal about the processes leading to starvation. In fact, in guarding ownership rights against the demands of hungry, the legal force uphold entitlements; for example in the Bengal famine of 1943 the people who died in front of well-stocked food shops protected by the state were denied food because of lack of legal entitlement, and not because their entitlements were violated.

Thirds, people’s actual food consumption may fall below their entitlements for a variety of other reasons, such as ignorance, fixed food habits, or apathy. In concentrating on entitlements, something of the total reality is obviously neglected in our approach , and the question is: how important are these ignored elements and how much of a difference is made by this neglect?

Finally, the entitlement approach focuses on starvation, which has to be distinguished from famine mortality, since many of the famine deaths-in some cases most of them are caused by epidemics, which have patterns of their own. The epidemics are, of course, induced partly by starvation but also by other famine characteristics, e.g. population movement, breakdown of sanitary facilities.

4.10 SUMMARY

The assessment of achievement and advantage of members of the society is a central part of development analysis. The foundational importance of human capabilities provides a firm basis for evaluating living standards and the quality of life, and also points to a general format in terms of which problems of efficiency and equality can both be discussed. The concentration on distinct capabilities entails, by its very nature, pluralist approach. Indeed, it points to the necessity of seeing development as a combination of distinct processes, rather than as the expansion of some apparently homogeneous magnitude such as real income or utility. The things that people value doing or being can be quite diverse, and the valuable capabilities vary from such elementary freedoms as being free from hunger and undernourishment to such complex abilities as achieving self-respect and social participation. The challenge of human development demands attention being paid to a variety of sectoral concerns and a combination of social and economic processes. In the collection of papers of which this one is a part, there are a number of specific studies dealing with such matters as education, health and nutrition, as well as the processes of agricultural expansion and industrial development. The problems of resource mobilization and participatory development are also addressed. Some of the subjects thus covered deal with variables that are direct determinants of human capability (e.g., education and health), while others relate to instrumental influences that operate through economic or social processes (e.g., the promotion of agricultural and industrial productivity). The uniting feature is the motivating concern with human development and its constitutive characteristics. In the distinction between functionings and capabilities, emphasis was placed on the importance of having the freedom to choose one kind of life rather than another. This is an emphasis that distinguishes the capability approach from any accounting of only realized achievements. However, the ability to exercise freedom may, to a considerable extent, be directly dependent on the education we have received, and thus the development of the educational sector may have a foundational connection with the capability-based approach. In fact, educational expansion has a variety of roles that have to be carefully distinguished. First, more education can help productivity. Secondly, wide sharing of educational advancement can contribute to a better distribution of the aggregate national income among different people. Thirdly, being better educated can help in the conversion of incomes and resources into various functionings and ways of living. Last (and by no means the least), education also helps in the intelligent choice between different types of lives that a person can lead. All these distinct influences can have important bearings on the development of valuable capabilities and thus on the process of human development. There are also other interconnections between the different areas covered in the collection; for example, good health is an achievement in itself and also contributes both to higher productivity and to an enhanced ability to convert incomes and resources into good living. In focusing on human capabilities as the yardstick in terms of which successes and failures of human development are to be judged, attention is particularly invited to addressing these social interconnections. Given clarity regarding the ends (avoiding, in particular, the pitfall of treating human beings as means), the social and economic instrumentalities involved in the ends-means relations can be extensively explored. One of the most important tasks of an evaluative system is to do justice to our deeply held human values. The challenge of "human development in the 1980s and beyond cannot be fully grasped without consciously facing this issue and paying deliberate attention to the enhancement of those freedoms and capabilities that matter most in the lives that we can lead. To broaden the limited lives into which the majority of human beings are willy-nilly imprisoned by force of circumstances is the major challenge of human development in the contemporary world. Informed and intelligent evaluation both of the lives we are forced to lead and of the lives we would be able to choose to lead through bringing about social changes is the first step in confronting that challenge. It is a task that we must face.

4.11 QUESTIONS

1. Define Poverty. What are the main types of poverty?
2. Discuss the concept of poverty line.
3. Explain the conceptual roots of capability approach.

M.A. ECONOMICS		LESSON NO. 5
COURSE NO. ECO 204	SEMESTER-II	UNIT-I

PUBLIC ACTION AND SOCIAL INEQUALITY

Structure

5.1 OBJECTIVES

After going through this lesson, you will be able to

- Explain the role of public action in social development.
- Understand the relationship between the social ineqaulity and economic reform
- Local goverance and social reform.

5.2 INTRODUCTION

Public action play a central role in economic development and in bringing social opportunities within the reach of people as a whole. Actions of the public prfound significance to the successes and failures of economic and social change in general, and to development efforts is particular.

5.3 THE PUBLIC AND ITS ROLE

'Beware the fury of the patient man, 'John Dryden had warned three hundred years ago. Unfortunately, the ruling authorities often have excellent reason to ignore that piece of ancient wisdom. The patient man-or woman-may be much too patient to come into the reckoning of those who are in charge of the levers of control Successive government in India have had reason enough to rely on the unending patience of the neglected and deprived millions in India, who have not risen in fury about illiteracy, hunger, illness, or economic insecurity. The stubborn persistence of these deprivations has much to do with that lack of fury.

What the government ends up doing can be deeply influenced by pressures that are put on the government by the public. But much depends on what issues are politicized and which deprivations become widely discussed and electorally momentous. The fact, discussed in the preceding chapter, that major famines have never taken place in a democratic country with a relatively free press and tolerance of opposition parties, indicates the power of public criticism and also the political salience of mass starvation, which receives instant attention in multiparty, electoral politics. A government that has to face criticism from opposition parties and free newspapers, and that has to seek reelection cannot afford to neglect famines, since famines are conspicuous miseries which can be easily brought into the arena of public discussion by newspapers, opposition Parties and active Parliamentarians. India's success in escaping major famines since the Bengal famine of 1943 (four years before independence) has not been unrelated to this feature of public action in the India democratic polity.

However, the reach of public criticism can be less effective when the deprivations are less extreme, more complex to analyses less easy to remedy, as in the case of regular-but non-extreme undernourishment and economic insecurity, and of lack of medical care for endemic diseases. Similarly, lack of school facilities or clean water may or may not receive crucially critical attention, depending on the particular nature of politics and journalism in the regions involved. While any responsible editor of a newspaper cannot write about a famine as and when it begins to emerge, and while the subject of mass starvation is easy to write about politically (even a simple picture of an emaciated mother holding a shriveled baby speaks volumes as a political statement), journalistic attentions on less immediate, less catastrophic deprivations depend much on the skill and political commitment of the practicing journalists. Also what is or is not politicized depends, to a great extent, on the visions and preoccupations of opposition Parties. For deprivation less dramatic than famines or catastrophic epidemics, a crucial variable thus, is the activism of public participation. This depends on a variety of factors, including the nature of the political Parties and their leadership, the skill and traditions of investigative journalism, and also the level of literacy and education in the region.

Public action, in this broad sense, can play a central role in economic development and in bringing social opportunities within the reach of the people as a whole. Sometimes public action is characterized in the economic literature as action by the government, not as action by the public itself. As we have discussed in Dreze and Sen (1989), this interpretation can be seriously misleading, as it draws attention away from the influence that the public can have in determining the direction of governmental action. As we tried to illustrate, actions of the public can be of profound significance to the successes and failures of economic and social change in general, and to development efforts in particular.

The role of public activism in influencing government policy can be particularly important in promoting the positive functions of the government. These positive functions include the provision of basic public services such as health care, child immunization, primary education, social security, environmental protection, and rural infrastructure. The vigilance and involvement of the public can be quite crucial not only in ensuring an adequate expansion of these essential services, but also in monitoring their functioning. Indeed, the actual reach and effective quality of the services that are meant to be, in principle, available often depends a great deal on the information that the local community gathers and the extent to which it can get its voice heard. The shirking and absenteeism of village teachers, for example, are much more easily observed by the villagers themselves than by government inspectors, and the search for redress can be more effectively achieved with local activism. Similar arguments apply to the diversion of ration supplies from publicly subsidized shops, the misuse of public funds and facilities in rural health centers, the disposal of village trees by local leaders for personal gain, or the stealing of electric wires by enterprising embezzlers. Also, schools, hospitals, etc. can be made more sensitive to public needs if there is local pressure in that direction, in a way that general instructions from high above might not be able to achieve.

Public action can also affect outcomes without having to work through swaying government policy. Public discussions can influence social behaviour, and sometimes even personal behaviour. For example, enlightened public discussion in Kerala clearly has had a considerable role in creating a cultural atmosphere that has acted against the gender bias in the family, and it also seems to have played an important part in spreading the use of birth control in Kerala and thus the decline in the fertility rate that has been so dramatic there in recent years.' Similarly, public action and social movements can do a great deal to challenge social inequalities without necessarily involving the agency of the government. In understanding the process economic development in India and the barriers that are faced, attention must be paid to the diverse roles and potentially extensive reach of public action.

As far as the influence of a public on governmental decision making is concerned, attention has to be paid not only to the positive influences that may be exerted on the process of development also to negative impacts the particular types of public action might have. Active pressure groups, which too are (in a broad sense) of the public, can make economic policy severely constrain by extracting concessions for sectarian interests that may divert resource from broad development objectives to narrow pursuit of sectional advantages.

Even the neglect of primary education in governmental planning in India-discussed earlier –has a clear relation with the biased impact of political activism and pressures. On the one hand, the lack of political pressure in favour of elementary education a deprivation that affects the least powerful sections of the Indian society has resulted in this need having only a very weak influence on the actual making of public policy. On the other hand, pressure group in favour of higher education a subject that directly interests , who are much more dominant in tire society have constituted a powerful force in the direction of giving priority to tertiary education The neglect of literacy and elementary education relates, to a considerable extent, to the extraordinary priority that has actually been given to expanding higher education.

This is, in fact, an integral component of general inequality India, end it relates to the well-being as well as the agency of the different groups involved. The sections of the population most affected by the absence of literacy are typically much worse off than the groups what benefit from higher education. In term of consequences, the bias in educational priorities has tended to reinforce existing inequalities, and has been least kind to the most deprived. But moving from consequences to the origins, these inequitous policies reflect, to a great extent, the pre-existent inequalities in Indian society. The more privileged groups, who clamour for further expansion of higher education, are politically much more powerful and better organized in pressing for what they want. There is, thus, something of a self-sustaining circle here.

To counter this resilient stratification, what is needed is more activism in the political organization of the disadvantaged sections of Indian society. This can be a challenging task, but recent history provides many examples of positive achievements in this field. The immensely impressive expansion of basic education in Kerala, for distance, has been much influenced by the contribution of political organizations working in the direction of more literacy and elementary education. To some extent the lower-caste movements in south and western India, in general, have had this reforming feature. Recently, in other regions as well, the disadvantaged group (including 'scheduled' and 'backward' castes, and to a lesser extent scheduled tribes) have begun to show their ability to organize and act in a politically decisive manner. There is a great opportunity here for cancelling that political activism in the direction of force fully demanding expansion, of basic education for those who are left out of the system, and in asking for greater attention to health care, social security, and related forms of public support. The direction of rural politics in India will be particularly important in turning this political evolution into a major force for economic development and the creation of social opportunities. Much would depend on whether the nature of such sectional politics stays confined to narrow issues (such as securing the privilege of guaranteed governmental jobs for a few member of the disadvantaged castes), or whether it can take on broader concerns that affect most people in the deprived categories (such as expansion of education, health care, social security, land reform, and so on). There is a real challenge here for the political parties and movements that claim to represent the undergoes of Indian society.

5.5 THE REACH OF INEQUALITIES

India's record in reducing social and economic inequalities since independence has been now disappointing. Despite a virtual consensus about some kind of 'socialism' being a fundamental goal of economic policy, few practical steps have been taken to remove the pervasive inequalities that divide Indian society.

The relevant inequalities take different forms, relating not only to large disparities of income and wealth but also to other of advantage such as caste, gender, and education. It so has been concerned with inequality all, public policy has largely concentrated on the standard economic inequalities (e.g. those relating to income and land ownership), perhaps because these inequality are particularly conspicuous, and lend themselves to convenient measurement. To a limited extent, there is sense in this, given the extreme nature of these inequalities, which leave some to struggle next meal while others lead opulent lives.

It is sometimes argued that the persistence of economic inequality does not matter very much, so long as poverty diminishes. This view might have some plausibility if individual well-being were just a question of income. When, however, well-being is seen in terms of basic capabilities, private income must be regarded as one among several relevant means that can be used to enhance well-being- Even if poverty remains unchanged, high levels of economic inequality directly curtail some of the relevant capabilities for the disadvantaged groups; examples of these capabilities include self-esteem, protection from violence, and the ability to participate in society and politics. People have reason to value these equality-related capabilities, even if they are poor and hungry.

Aside from this direct link between inequality and well-being, high levels of economic inequality can also indirectly undermine the ability of a society to promote valued capabilities. Economic disparities affect the character of social life, the nature of the political process, and the priorities of the state. Inequality, for instance, can be a source of social tension and even violence; this may help to explain why levels of violence are so high in, say, Brazil, South Africa, the United States, and the state of Bihar in India (all of which are plagued by persistent inequalities). And, as was discussed in the preceding section, the positive role of the government in expanding social opportunities can be severely undermined by political pressure from privileged groups geared to the protection of sectional interests. On the positive side, low levels of inequality often facilitate cooperative action and the pursuit of collective goals, such as the provision of public services. Even at the village level, it has often been observed that the outcomes of collective action and social provisions are greatly influenced by the nature of economic and social divisions." In so far as anything has been done to reduce economic inequalities in India, the chosen measures have often consisted of interfering with market transactions that are perceived to generate these in-equalities. Examples of such measures include legal controls on share-cropping and money lending, minimum-wage provisions, restrictions on the scale of private enterprises, rent-control laws, and prohibitions on land sales by tribal people. Some of these measures could be, if appropriately devised, helpful means of reducing inequality. There are persuasive redistributive arguments, for instance, in favour of legislation raising the minimum wage above the market level, and of some forms of positive discrimination in employment-policies.

At the same time, it must be recognized that interference with market exchange has severe limitations as a redistributive device. The roots of economic inequality in private ownership market economies lie not in market exchange per se, but market exchange based on unequal ownership. Economic or legislative measures that interfere with market exchange without altering the distribution of resources, and without creating an alternative –and more equitable –allocation mechanism, can be quite ineffective and counterproductive. First, such measures sometimes have high efficiency costs, which are borne partly by disadvantaged groups. It is well known, for instance, that extreme rent-control laws supposedly geared to the protection of tenants have often crippled the housing market in urban India, ultimately hurting the interests not only of landlords, but also of potential tenants. Second, even the distributive effects of these measures can be quire disappointing. While minimum-wage legislation can be a useful redistributive tool (especially in situation of monopsony), excessive wage demands can lead to labour-saving technological investment and widespread unemployment. The large-scale shift from labour-intensive cultivation to plantation in rural Kerala, where unemployment is now exceptionally high, is often cited as an example of this possibility. Third, it must be borne mind that market exchange is sometimes a factor of liberation disadvantaged sections of the population. It is by taking advantage of new opportunities for selling their labour, for instance, that many agricultural labourers in India have managed to free themselves from traditional bonds and feudal oppression. Distributive polices have to take note of these liberating aspects of market exchange. As well as of its potentially exploitative features. Finally, the bureaucratic controls involved in widespread interference with market exchange are often themselves a major source of inequality, and may end up compounding rather than reducing the disparities they are meant to address.

Given these limitations of redistributive measures based on interference with market exchange, it is important to consider alternative (or complementary) means of reducing economic inequalities. An obvious possibility is redistribution of ownership, e.g. through land redistribution. One advantage of ownership-focused redistributive measures is that their adverse effects on efficiency are often less serious than those of exchange-focused redistributive measures. In fact, in the former case, the efficiency effects can even be positive; the high efficiency of small-farm owner-cultivation, for instance, often provides a strong argument for land redistribution on efficiency grounds alone.'

Redistributive measures such as land reform, of course, tend to be politically demanding, since privileged classes have a strong interest in resisting them. But the experience of West Bengal and Kerala, discussed in the papers by V.K. Ramachandran, Sunil Sengupta and Haris Gazdar show that a political situation where land reforms are seriously implemented is not impossible to achieve. The reforms that have been implemented in these two states arc relatively modest, in terms of total area distributed, but they have succeeded in guaranteeing minimum land entitlements to millions of people, and their benefits in terms of increased economic security, greater self-respect, and improved bargaining power are for from negligible. There is no reason to think that the political conditions that have led to these achievements are impossible to replicate elsewhere in India.

Which land is perhaps the most obvious asset to redistribute, it has to be borne in mind that economic opportunities in India depend on a much 'wider range of endowments'. Even in rural areas, land is no longer the overwhelming determinant of economic inequality. The distribution of formal-sector employment, of environmental resources, of educational facilities, and of affordable credit arrangements are examples of other influential factors, opportunities for redistribution relating to these diverse endowments have to be considered, along with the scope for land redistribution.

No matter how far it will prove possible to go in these directions, it is important to remember that the standard view of economic; inequality (which focuses on income distribution and related issues only captures a small part of the social inequalities with which we ought to be concerned. The relevant dimensions of inequality include not only income (or expenditure) but also health achievements, literacy; rates, self-esteem, and other aspects of well-being. And the social divisions to be considered include not only different income groups but also other divisions, based on caste, gender, age, occupation, education levels, and related attributes. Many of the relevant inequalities are less conspicuous than disparities of purchasing power but no less perverse.

It is in terms of these broader egalitarian concerns that India, record has been most disappointing, and that the scope for action may be particularly extensive." The reduction of income inequality is a difficult challenge in India as elsewhere, partly due to the incentives problems that tend to arise when there is no strong link between productivity and reward, and partly because of the resistance privileged classes. But there is no reason to tolerate widespread gender discrimination, the continued oppression of disadvantaged castes, the persistent divide between the literates and the illiterates, the exploitation of child labourers, and other destructive social inequalities. The dilemmas that arise in reducing economic inequality (e.g. possible conflict between deficiency and equity) often have little force in addressing these inequalities. In fact, in many circumstance distributional concerns are congruent with other social objectives, including economic efficiency. Reduced gender discrimination, for instance, expands the scope of women's agency, which is an important factor of social change and economic success.

The congruence between distributional concerns and other social objectives is also striking in the context of basic education. As we noted in the preceding section, large disparities of educational achievements are a major form-and cause——of social inequality in India. While higher education is remarkably well developed, a large proportion of the population is still illiterate. Further, these disparities of educational achievements tend to perpetuate and reinforce other kinds of social inequality. The link between caste and literary, for instance clearly emerges from a wide range of empirical investigations, including the case studies presented in the companion volume Dreze and Sen, 1996. Surveys carried out in Uttar Pradesh and West Bengal show how, in the same village, some privileged castes can' e found to have enjoyed near-universal adult literacy for several decades, while literacy rates are still close to zero among disadvantaged castes, particularly for females." Eradicating illiteracy in India would, therefore, not only promote greater equality in educational achievements, but also contribute to the elimination of social inequalities based on caste, gender, and related personal attributes. 'Widespread literacy would also serve a wide range of other economic and social objectives, given the diverse personal and social roles of education. The compatibility between egalitarian concerns and other social objectives makes the expansion of basic education a particularly important stop towards the reduction of inequality in India.

5.5 SOCIAL INEQUALITY AND ECONOMIC REFORM

The preceding discussion has some bearing on the issue of social inequality and economic reliance on Opposition to greater reliance on market allocation in India is often based on the fear that such a policy might intensify existing inequalities. This argument deserves serious examination. As we noted earlier, there is a case for considering inequality as a social failure on its own, even when rising inequality goes hand in hand with a decline in poverty. It is right to be concerned about the prospect of further intensification of economic and social inequalities that are already extremely large.

Having said this, apprehensions of rising inequality may be misguided or exaggerated in several distinct ways. First, it is difficult to be sure about the effects of market-oriented reforms on economic inequality. Market allocation can certainly have some unequalizing influences, but so do bureaucratic controls, public-sector inefficiency, and trade restrictions. Some of the effects of reform can certainly be expected to be positive. Trade liberalization, for instance, tilts economic activity towards the production of exportable commodities, which tend to be labour-intensive, and this can be expected to have, often enough, an inequality-reducing influence. These positive aspects have to be considered along with the unequalizing feature of liberalization.

Second, the relationship between market-oriented reform and social inequality is not just a question of their impact on the distribution of income or expenditure. Their consequences for other kinds social divisions and inequalities are equally relevant.

Here again, some important positive effects can be expected. Many studies have documented, for instance, how the expansion and diversification of employment prospects cart undermine the traditional caste hierarchy based on a rigid occupation structure. Similarly, a greater emphasis economic achievement rather than inherited and immutable ascribe characteristics as a basis of social status can be expected to lead to some dissolution of traditional hierarchies. Women, too, may have much to gain from labour-intensive economic growth, the positive effects of expanded opportunities for gainful female employment on gender relations and intra-household equity. These positive links between economic reform and equality have to be considered together with the equally that privileged social groups are often in a stronger position to take advantage of new economic opportunities.

Third, the impact of market-oriented reforms on social inequality depends a great deal on the precise content of these reforms it is also strongly influenced by other aspects of social and economic policy. If the reforms in question take the form of simply removing controls, and leaving things to the market, it is difficult to predict in which direction the distributional effects will go. On the other, hand, if economic policy involves a strong emphasis on promoting labour-intensive economic activity, on enabling disadvantaged group to participate in the process of economic growth, on making of growing resources to expand public services, and on developing social security arrangements, the reform process may provide opportunity to achieve greater equity as well as to reduce poverty.

In short, there is no predetermined link between economic reform and social inequality. A conscious choice has to be made between participatory growth and unaimed liberalization.

5.6 BASIC EQUALITY, SOCIAL SECURITY AND HEALTH CARE

One part of the task of reducing social and economic inequalities in India involves the expansion of social security provisions, broadly understood as social arrangements to protect all members of society from extreme deprivation and insecurity." It is, indeed, difficult for persons who live in a condition of acute insecurity and dependence to-challenge the inequalities of which they are victims. The availability of independent means of subsistence based on social support makes it that much easier for agricultural labourers to resist exploitative employment relations, for the oppressed castes to rise beyond humiliating occupations, and for women to challenge patriarchal institution. Also, widespread acceptance of the notion of basic social equality can be much enhanced when some essential entitlement are guaranteed to all citizens as a matter of right. It is difficult to claim that all human beings have equal rights in any substantial sense while the streets are full of unemployed labourers, hungry children, destitute beggars, abandoned widows, and forsaken victims of dreadful diseases. Social security is an essential requirement of social justice.

The case for expanded social security arrangements arises partly from these ethical considerations of basic equality, and partly from the more direct contributions they can make the persons who benefit from them. In devising these arrangement, it is important to take a broad view of the relevant means of intervention. With the help of ample budgetary and administrative resources, many industrialized countries have been able to design effective social security systems based on particular programme as unemployment benefits, health insurance, and old-age pensions. In a country such as India, these particular means of intervention raise important problems of financing, administration, and incentives, which severely constrain their effectiveness as tools of social security.

However, alternative means are often available to address the same needs. For instance, even if unemployment insurance is not a feasible way of dealing with rural unemployment in India, labour-intensive public works programmes themselves can play a helpful role in a dressing that problem. These programmes have less exacting financial requirements than unemployment insurance schemes, have limited disincentive effects, and are comparatively easy to administer (partly because they are based on a simple self-selection mechanism) Public provisions relating to land entitlements, health care, public disturbance, supply, supportive credit, and school meals are other examples of relevant means of intervention in the Indian context.

One particular aspect of social security in which India has been quite successful since independence, as discussed earlier, is that of famine prevention. This achievement reflects, first and foremost, the political compulsion to respond to crisis situations in a democratic accountability to the electorate makes it very difficult the government in office to ignore clamours for action when family threatens to develop, or electoral debacles that may an unprevented famine. But the successful prevention of famine India has also involved a well-devised system of public intervention to protect the entitlements of vulnerable groups' chiefly based on large-scale employment Programmes. The implementation of these programmes is sometimes quite chaotic, but they have nevertheless been effective, on numerous occasions since independence, in preventing the outbreak of a major famine. This experience illustrates the feasibility of certain kinds of social security arrangements, even in a Poor country, when the government has adequate incentives take action.

Putting in place social security arrangements to deal with chronic deprivation is undoubtedly a more demanding challenge, partly because the political pressures that are easy to mobilize in famine situation are often less immediate in other contexts, and partly because the problem to be addressed is intrinsically more complex. Here too, public employment programmes can be an important means of action as the experience of Maharashtra's Employment Guarantee Scheme illustrates. But other initiatives of different kinds have also proved helpful in several states. As mentioned earlier, for instance, the land reforms implemented in 'West Bengal and Kerala can be seen as fulfilling important social security objectives as well as some basic egalitarian goals. In recent years, Tamil Nadu has also taken some far-reaching initiatives in the field of social security, involving school meal programmes, innovative pension schemes, improved health care provisions, and related measures." These and other pioneering experiences are highly relevant for other states. Grameen Bank and BRAC in Bangladesh, and SEWA in Gujarat, also provide excellent examples of how imaginative credit arrangements can be used to reduce insecurity.

Among the different forms of intervention that can contribute to the provision of social security, the role of health care deserves forceful emphasis. Illness is, obviously enough, one of the most widespread causes of human deprivation and economic insecurity in India. It affects not only the actual patients and those who depend on them for their subsistence, but also other members of the society, in so far as the threat of disease arising from widespread morbidity reduces the quality of life. Further, the limitations of private provision in the domain of health care are 'well known. A well-developed system of public health is an essential contribution to the fulfillment of social security objectives.

This is one field where there is an overwhelming need for bold initiatives and comprehensive reform. Compared with many other developing countries, India has poor health achievements despite spending a comparatively large part of its GNP on health (if one adds up public and private spending). Much of this mismatch between resources and achievements is due to the poor functioning of the public health care system, especially in rural areas. In some states, this system is little more than a collection of deserted primary health centres, filthy dispensaries, unmotivated doctors, and chaotic hospitals.

There have, in recent years, been some important initiatives geared to better public health provisions. The recent expansion of child immunization programmes, for instance, is certainly a positively (and long-overdue) development, and may have made a significant contribution to the comparatively rapid decline of child death rates during the last few years. But there have also been alarming of neglect and deterioration in the basic framework of public health care. One of these signs is the massive displacement of health activities by family planning programmes (mainly based on sterilization).

As many field-based investigations have noted, the rural health care system in many states gives overwhelming priority planning to the detriment of other health care services. A recent review of health care policy, for instance, observes that 'the whole rural primary health care system is geared towards family planning work' (Priya, 1990, p. 1820). Similarly, a field study in rural Rajasthan concludes that '[family planning] targets have now become the hallmark of all government activity in the name of health' (Gupta et al.,1992, p.2330) a survey of auxiliary nurse midwives' in rural Maharashtra finds that two-thirds of the respondents regard family planning's the top priority work. (Jesani, 1990, p. 1103); study of health care in Uttar Pradesh states that 'during the main months for family planning canrprxisn5 (usually December to march) virtually all the energies of maternal and child health staff may be directed towards those ends' (Jeffery et al., 1989, p. 216); another study of health and family welfare services in rural Uttar Pardesh reports that' the sterilization target achievement has the high: or rather the single priority' (Maurya, 1989, p. 167); yet another study Uthar Pradesh found that 'the rampages of the family planning programme are particularly, devastating... [the] preoccupation with attaining of the given family, planning targets has had devastating effects on the other health activities' (Budakoti, 1988. Pp. 153-4) an enquiry made in Andhra Pradesh reveals that 'family Planning was taken as the priority function at all levels of health care and ANMs [Auxiliary Nurse Midwives] would even leave delivery for a [sterilization] case' (Raghunandan et al., 1987); A survey of four north Indian states concludes that 'as from the highest level of the lowest everybody is asking regarding sterilization targets… health workers under the pretext of work of motivating sterilization cases neglect other work' (M.H. Shah, 1989, p. 120); a field report from rural Gujarat notes that 'the primary health care machinery, village, taluka and district level machinery including teachers, officials, on-officials, etc., were geared to work for achieving the family planning targets' (Iyengar and Bhargava, 1987, p. 1087); and a World Bank assessment of health care policy mentions that 'more than half of all health worker activities are directly associated with family planning'. These are highly disturbing findings, which call for a major reassessment of health policy in India.

The record of public involvement in the provision of health care and social security is not similarly poor in all the states of India. Kerala, in fact, has a distinguished record in this respect, which has made a major contribution to the rapid expansion of life expectancy in that state (now around 72 years). But other states have also taken important initiatives in recent years. Nutrition programmes in Tamil Nadu, employment schemes in Maharashtra and Gujarat, primary education in Himachal Pradesh, public distribution in Andhra Pradesh, and land reform in 'west Bengal are some examples. In contrast, in the large north Indian states (notably Uttar Pradesh, Bihar, Rajasthan, and Madhya Pradesh), where the need for action is in many respect particularly urgent, apathy towards the need to develop social security programmes seems to be most resilient.

In this connection, it is interesting to note that most of the initiatives observed in the more active states have been taken in the context of electoral politics. In some cases, as with school, meals in Tamil Nadu, land reforms in west Bengal, and public distribution in Andhra Pradesh, they have even been at the forefront of electoral debates, In the large north Indian states, by contrast, social security and related issues have little place in party programmes and electoral debates; there, electoral politics seem to give more room to tactical factionalism, with alliances being made and broken depending on personalities and power bases, and little time being 'wasted' on real issues such as undernutrition, illiteracy, unemployment, or ill health.

There is a plausible connection between this low visibility of basic social issues in north Indian politics and the persistence of widespread illiteracy. Literacy is not a requirement of effective participation in the political process but it is certainly a useful tool of active involvement. In the more literate states, disadvantaged sections of the population have been relatively successful in putting their needs on the political agenda. The best example is Kerala, where high levels of literacy achieved early on have helped to empower the public to demand extensive state involvement in the provision of health care, public distribution, social security, and, of course, education itself. But the same phenomenon is increasingly important in several other states, particularly in south India. In the educationally backward states of north India, by connection the political agenda is overwhelmingly dominated by the concern of privileged classes and castes. At the time of elections, the illiterate masses have a reasonable chance to make their voice heard, an opportunity which they have seized with striking sagacity on several occasions (for example in 1977, when the ruling party was massively defeated following the excesses of the Emergency). Between election however, the vocal demands of the upper castes, the large farmers, and the urban middle-class receive immensely greater attention than the needs of disadvantaged ’groups.’

These observations bring us back to some general points including (1) the central role of politics in the development process (of which the expansion of social security arrangements is a crucial aspect) (2) the need for more effective political organization of deprived group and (3) the importance of basic education as a means of successful participation in political activity.

5.7 LOCAL GOVERNANCE AND SOCIAL REFORM

Many of the public provisions that have to be made in order to promote basic equality and ensure minimal social security involve local public services. A primary school, for instance, is a public facility available to the local community. The same can be said of primary health care centers, fair price shops, labour-intensive public works schemes, and a whole ral1ge of other relevant provisions.

The effective management of these local public services depends crucially on the existence of credible institutions for local governance. To illustrate, it is difficult to see how the endemic problem of teacher absenteeism and shirking in rural India can be successfully tackled without involving the proximate and informed agency of village communities. Shirking cannot be easily detected by distant outsiders, and the system of centralized school inspection has proved quite ineffective in much of rural India. It is much easier for the concerned parents, and other local residents, to monitor the behaviour of school teachers; but translating their specific knowledge into remedial action involves a challenging problem of local governance. As things stand, there is no mechanism to ensure any kind of accountability of village teachers to the local community in large parts of India, and this is an important factor in the persistence of endemic dereliction of duty.

Local democracy is a highly neglected institutional base of political participation in India. The case study of Uttar Pradesh by Dreze and Gazdar (1996) in the companion volume brings out how many villages in that state still function in much the same way as in the colonial period, with a single 'headman' acting as an all purpose intermediary between the local community and the state. An important development, of course, is that the headman is now elected, rather than being selected by the government. In the absence of effective political organization of disadvantaged groups, however, the coveted position of headman is usually seized by some member of the local elite, who often uses his position to further his personal interests much more than to pursue any social goal. This weakness of local democracy, rooted in centralized political institutions and deep social inequalities, has played a major role in the comprehensive breakdown of local public services in Uttar Pradesh. And what failure, in turn, is a chief cause of economic and social backwardness in that state.

The importance of local democracy is not confined, of course, to this issue of public services, or other instrumental roles of participatory politics. Participation also has intrinsic value for the quality, of life. Indeed, being able to do something not only for oneself but also for other members of the society is one of the elementary freedoms which people have reason to value. The popular appeal of many social movements in India confirms that this basic capability is highly valued even among people who lead very deprived lives in material terms.

The inadequacies of local governance in rural India have several, roots, which call for distinct responses. First, the weakness democratic institution at the village level reflects a long traditions of centralized governance. The historical roots of this go back to the colonial period, when hierarchical centralization was crucial in making it possible for a handful of foreigners to administer a large and potentiality rebellious population (see e.g. Guha, 1982, 1983, and Guha and Spivak, 1988). But it has been consistently perpetuated by the successive governments of independent India.

Second, the flourishing of local participatory politics has been greatly slowed down by low levels of literacy and basic education. Literacy obviously helps people to understand the functional of the system, to deal with the government bureaucracy, to be aware of their rights, to understand and tackle new problems, and to achieve other abilities that are important for an effective role in local political. Also, the possibility of decentralizing particular functions of the government (such as some aspects of school management) depends on adequate expertise being available at the local level. Just as more widespread education has enhanced the quality of state-level politics in the more literate states, most notably Kerala, it has also led to more vigorous practice of local democracy in those states.

Last but not least, local democracy has often been undermined by acute social inequalities. The low involvement of women in local representative institutions such as village panchayats is a clear illustration of this problem. In large parts of the country, local governance is in the hands of Upper-caste men from privileged classes, who are only weakly accountable to the community and often end up using local public services as instruments of patronage. In some cases, the rural elite has been known not only to be indifferent to the general promotion of local public services but even to obstruct their expansion, to prevent the improvement of disadvantaged groups. In Uttar Pradesh, for instance, it is still possible to find villages where a powerful landlord has actively opposed the creation of a village school.

The first of these three reasons for the fragile nature of local democracy in India has recently been addressed in the form of the 73rd and 74th constitutional amendments (the panchayati Raj' amendments), which require all the state governments to introduce certain legislative measures geared to the revitalization of local representative institutions. The measures in question include mandatory elections at regular intervals, reservation of seats in village panchayats for women and member of scheduled castes or tribes, and some devolution of government responsibilities to local authorities. These legislative reforms certainly provide an opportunity for correcting the current failures of local governance in rural India. Nevertheless, it would be naive to expect too much from them unless the other causes of this problem are also addressed.

Recent experiences in different parts of India bring out these opportunities and limitations related to legislative reform. On the positive side, the relatively successful experience of West Bengal discussed by Sengupta and Gazdar (1996) in the companion volume illustrates the scope for radical improvement in local democracy. The formation of all-women panchayats in Parts of rural Maharashtra (Omvedt, 1990) is another interesting example of transform of village politics based on a combination of legislative reform and political organization. On the other side' several empirical studies have the limitations of decentralization in the context of continued inequalities of political power.

The recent legislative reforms hold much promise, but their actual success depends a great deal on other types of public action these reforms are not supplemented with a more active programme of social change, they stand in of leading to a proliferation of bureaucracy without any real improvement in local democracy. On the other side, if they go hand in hand with an expansion of public initiatives and social movements aimed at more widespread literacy, a stronger political organization of disadvantaged group and a more vigorous challenge to social inequalities, they would represent a real opportunity to form village politics in rural India.

5.8 SUMMARY

The role of public activism in influencing government policy can be particularly important in promoting the positive functions of the govt. These positive functions include the provision of basic public services such as health care, child immunization, primary education, social security, environmental protection, and rural infrastructure. As far as influence of a public on governmental decision making is concerned, attention has not only to positive influences that may be exerted on the process of development also to negative impacts the particular types of public action might have. Active pressure groups which too are of the public, can make economic policy severly constrain by extracting concessions for sectarian interests that may divert resonance from board development objectives to narrow pursuit of sectional advantages.

5.9 QUESTIONS

1. Discuss the role of public action in social development.
2. State and explain the relationship between the social inequality and economic reform.
3. Write a short note on local governance.

AGRICULTURAL GROWTH AND INDUSTRIAL PERFORMANCE IN INDIA, LINKS BETWEEN AGRICULTURE AND INDUSTRY

Structure

6.1 OBJECTIVE

After going through this chapter, students will be able to

- Explain agriculture and industrial sector.
- Explain features of industrial and agriculture growth.
- Describe link between agriculture and industry.

6.2 INTRODUCTION

In an economy such as India's, where approximately half of the gross domestic product originates in agriculture and allied activities, it is generally assumed that the influence of agriculture on industry is strong. There are at least five separate channels of influence. First, because agriculture requires industrial inputs, such as fertilizer, growth in agriculture generates demand for such industrial products. Perhaps, as the technology of agricultural production changes, this link will become stronger.

Second, agriculture supplies the inputs needed by agriculture-based industries. This segment if the industrial structure accounted for 66 per cent of total industrial output in 1946, 47 per cent in 1960, and 34 per cent in 1970. Obviously, the availability of agricultural raw materials must have a significant influence on these industries.

Third, agriculture influences the output of industrial consumption goods through demand. Industrial consumption goods include clothing, footwear, sugar, edible oils, and furniture. It is not often recognized that rural consumption of industrial consumption goods is nearly two-and-a-half times that of urban consumption.

The fourth channel of influence is via government savings and public investment. A rise in agricultural production can result in increased government savings by increasing the amount of indirect taxes collected and by improving freight earnings for the railways. An increase in government savings may, in turn, be reflected in higher public investment' which may generate the demand for the output of basic and capital goods industries. The combined weight of the basic and capital goods industries in total industrial production is 53 per cent.

Fifth, fluctuations in agricultural production may affect Private corporate investment decisions through the impact of the terms of trade on profitability. A low and stable price for wage goods (particularly fool) may lead to increased profitability for industrial goods, which may be conducive to increased private corporate investment. On the other hand, an increase in the terms-of-trade in favour of agriculture may promote rural household savings and investment.

Whereas some of the channels emphasise the link between agriculture and industry on the supply side, others stress the link on the demand side. Each of these links is examined separately to see how strong each influence has been in India during the past 20 years. However, a look at industrial growth and agricultural performance during the period 1955-75 will highlight some of the trends.

6.2.1 Salient Features Of Industrial And Agricultural Growth

There are two distinct periods in the history of industry in India during the 20 years beginning in 1955. In the first decade industrial production increased at an average annual rate of 7.1 per cent, but in the second decade, 1965-75, the growth rate fell sharply to 3.9 per cent. Undoubtedly, the industrial structure of India is far more diversified now than it was in 1950. But the sluggishness of industrial production persisted for more than a decade and by 1975 had spread to all branches of industry. Table 6.1 provides data on the rate of growth of industrial and agricultural production since 1951. Data on the growth rates of different sectors, such as basic goods, capital goods, and consumer goods, are also provided. The highest industrial growth rate was achieved during the period 1961-65. On average, industrial production grew by nine per cent per year. The sharpest increase was in the capital goods industries, which grew at an annual rate of 19.7 per cent. This is partly accounted for by the low base those industries started from. During this period, the rate of growth of the consumer goods industries was five per cent, which was the highest growth rate achieved by this segment of industrial output in any five-year period. The period 1966-70 witnessed a dramatic decline in production. The growth rate fell to 3.7 per cent. Although all segments of industrial production suffered during this period, the worst hit were the capital goods industries, which declined on an average of 1.4 per cent a year. The growth rate of the consumer goods industries declined only slightly. The growth rate of the agriculture based industries decreased from 3.9 per cent in the previous period to 1.6 per cent during this period. During 1977-75, the growth rate of industry was 3.6 per cent—almost the same as in the previous period. However, the rates of growth of the different segments were strikingly different. The consumer goods industries suffered most during this period. Their growth rate fell to 1.6 per cent. The capital goods industries improved their performance, and there was little change in the growth rate of agriculture-based industries. Thus, whereas the decline in industrial output during 1966-70 was primarily due to the setback in capital goods industries, during 1970-75 it was due to the decline in consumer goods industries.

Table 6.1

Growth Rates in the Output of Different Sectors of Industry and Agriculture, 1951-67

(per cent)

Sector	1951-55	1956-60	1961-65	1966-70	1971-76
Industry					
General index	6.68	5.70	9.0	3.7	3.6
Use-based classification					
Basic goods industries	30.90[a]	4.71[a]	10.5	6.2	5.3
Capital goods undustries	___	___	19.7	–1.4	5.4
Intermediate goods industries	5.79	9.83	7.19	3.99	1.84
Consumer goods industries	3.43	2.88	5.0	4.0	1.6
input-based classification					
Agriculture-based industries	___	___	3.9	1.6	1.3
Metal-based industries	___	___	16.49	3.89	4.78
Chemical-based industries	___	___	8.25	9.51	2.90
sectoral indicatores					
Transport	___	___	12.87	1.60	4.90
Electrical & allied activites	___	___	13.68	12.23	5.08
Agriculture					
All crops	4.3	4.3	–1.0	6.8	2.7
Foodgrains	5.3	3.9	–2.0	8.9	2.0
Non-Foodgrains	2.6	5.1	0.9	3.5	2.4

Sources : The figures for industry from 1951 to 1961 are from V.V.N. Somyajulu, "Structural Changes and Growth in Indian Industries 1946-1970," *Asian Economic Review* 16 (December 1974) : 131-184; the figures for industry after 1961 are from Reserve Bank of India, *Report on Currency and Finance*, various volumes (Bombay: Reserve Bank of India, various years). All figures fro agriculture are from India, Ministry of Agriculture and Irrigation, Directorate of Economics and Statistics, *Estimates of Area and Production of Principal Crops in India*, Various issues (Delhi: Controller of Publications, various years).

Table 6.2 shows that, except during 1960-65 when rates of growth were uniformly high, the year-to-year changes have been quite uneven. During 1966-70, the highest rate of growth for industry as a whole was 7.5 Per cent and the lowest was -0.4 Per cent. During 1996-70 the highest and lowest growth rates achieved were 5.7 per cent and 1.6 per cent respectively. Nor did the different segments of industry grow at the same pace in all years. For example, during 1971-75 the highest growth rates in the basic, capital, and consumer goods industries were reached 1975, 1973 and 1972 respectively. Industrial production rose at an average annual rate of 6.2 per cent between 1950 and 1960. This period was also marked by the rapid growth of agricultural output, particularly of foodgrains. Between 1950/51 and 1955/56, foodgrain production rose at an average annual rate of 5.3 per cent. During the next five years, the rate of growth was 3.9 per cent per year. The drought years of 1965 and 1966 had a dramatic effect on industrial production. Industrial output, which had been growing steadily at about nine per cent per year in the previous five years, stopped growing in 1966 and 1967 (Table 6.2). The revival of industrial growth seen in the next three years was again associated with better performance in agriculture. More recently, the fall in the output of the consumer goods industries in 1973 and 1975 was associated with a fall in agricultural output in 1972 and 1974.

Table 6.2

Annual Rates of Growth in Industrial and Agricultural Production, 1961-75

(per cent)

Year	*All Industries*	*Basic Good*	*Capital Goods*	*Consumer Goods*	*Agriculture Based Industries*	*All Crop*	*Food*	*Non-food*
1961	9.2	12.7	18.0	6.6	5.2	0.0	0.8	–0.2
1962	9.7	13.3	29.6	1.3	2.8	–0.15	–3.1	1.8
1963	8.3	14.2	11.1	2.2	2.6	2.4	0.6	2.6
1964	8.6	3.8	17.7	7.4	6.6	10.6	10.8	11.7
1965	9.2	8.6	22.0	7.5	2.4	–16.7	19.0	–11.4
1961-65								
Average	**9.0**	**10.5**	**19.7**	**5.0**	**3.9**	**–1.0**	**–2.0**	**0.9**
1966	–0.4	5.2	–13.9	2.9	–0.9	0.0	2.6	–3.2
1967	–0.4	2.1	–2.3	–4.3	–4.4	21.5	28.0	11.5
1968	6.8	10.2	3.4	4.9	3.5	–1.5	–1.0	–2.1

1969	7.5	8.9	1.7	10.1	5.5	6.7	6.7	6.4
1970	5.1	4.6	4.9	6.4	4.5	7.2	8.9	5.1
1966-70								
Average	**3.7**	**6.2**	**–1.4**	**4.0**	**1.6**	**6.8**	**8.9**	**3.5**
1971	4.2	4.6	5.5	3.2	0.5	0.0	–1.3	2.0
1972	5.7	8.0	0.9	4.7	5.6	–8.0	–8.2	–7.8
1973	1.6	–3.1	5.8	0.5	–0.1	9.9	7.8	14.4
1974	2.0	3.9	4.3	2.2	–1.0	–3.2	–5.4	1.1
1975	2.0	3.9	4.3	2.2	–1.0	–3.2	–5.4	1.1
1971–75								
Average	**3.6**	**5.3**	**5.4**	**1.5**	**1.3**	**2.7**	**2.9**	**2.4**

Sources : Calculations from data in India, *Economic Survey,* various issues (Delhi: controller of Publication, various years); Reserve Bank of India, *Report on currency and Finance*, Various volumes (Bombay; Reserve Bank of India, various years); R.N. Lal *Capital Formation and its financing in India* (columbia, Mo.: South Asia Books, 1977) : Vidya Pitre "A Study of Trends in India's Imports : 196061 to 1974-75." *Economic and Political Weekl*y, May 9, 1981, pp. 851-862; and Isher J. Ahluwalia, *Behaviour of Price and Output in India* (Madras : The Macmillan Compnay of India, 1979).

Notes : The growth rates of Industrial production and their components up to 1970 were computed from the series with index 1960 equals 100 and thereafter from the index 1970 equals 100. The growth rates of agricultural output and their components were computed from the series with the triennium ending 1961/62 as a base.

But during the period 1961-65, when industrial growth was rapid, agricultural growth was erratic. Agricultural output rose only in 1963/64 and 1964/65. Whereas the foodgrain terms-of-trade rose during this period, their increase was moderated by annual imports of foodgrains of about five million metric tons.

Thus, although there appears to be a rough parallel between industrial growth and agricultural performance, one should not, even in theory expect industrial production to be a simple reflection of agricultural performance. Industrial growth is fuelled by many factors that are not directly influenced by agriculture. On the other hand, raw data may hide some of the influences of agriculture on industrial performance because of the lags involved. Also, if there are several links between agriculture and industry, it is quite possible that whereas some may lead to an increase in industrial production, others may decrease. As already pointed out, the effects of agricultural output on the demand for industrial consumption goods and on the terms of trade for different groups of people are different. In some situations, governmental polar may partly offset the effects.

6.3 LINKS BETWEEN AGRICULTURE AND INDUSTRY

The channels of influence discussed earlier can be grouped into three types of linkages - production linkages, demand linkages, and savings and investment linkages. These linkages play a significant role in order to construct a macro model.

6.3.1 Production Linkages

Agriculture and industry are linked to each other through the input-output relationship. The output of agriculture provides inputs for many industries, such as sugar, cotton textiles, jute textiles, and tobacco. The proportion of the value of agricultural inputs to the total value of output in these industries varies from 20 per cent in matches to 95 per cent in gur and khandsari, which are both forms of brown sugar. Agriculture also absorbs the outputs of other sectors as inputs required in the production process. The major industrial outputs coming under this category are fertilizers and electricity. At India's present stage of development, it is only natural that the production linkages are not strong. According to a table of inter sectoral transactions for 1968/69, the total value of the output of agriculture and allied activities (including animal husbandry, forestry, and fishing) was Rs. 19,702 crores. The total value of inputs used in agriculture was Rs. 4,840 crores. Of this, Rs. 3,571 crores was the value of inputs coming from agriculture and allied activities. Thus only inputs worth Rs. 1,269 crores came from the industrial and service sectors. This was only 6.4 per cent of the value of total agricultural output. The flow of the output of agriculture and allied activities to other sectors constituted only a small share of the total value of their output. Output worth Rs. 2,489 crores went to non-agricultural sectors as inputs. This was approximately 13 per cent of the total output of agriculture and allied activities.

Dividing the economy into three sectors, agriculture, manufacturing, and services, and taking into account direct and indirect requirements, one can see that an increase of Re. 1.00 in the final demand for agricultural goods results in an increase in the output of manufactured goods of the 0.09 and of services of Re. 0.02, whereas an increase of Re. 1.00 in the final demand for manufactured goods results in an increase in the output of agricultural goods of Re. 0.26. In fact, a rupee increase in manufactured goods has a greater effect on agricultural output than on services. These data also show that the dependence of industry on agriculture is greater than that of agriculture on industry.

The dependence of agriculture on industry for inputs hinges on the technology used in agriculture. Similarly, the dependence of industry on agriculture for inputs hinges on the growth of processing industries, which in turn depends on the amount of income and perhaps export demand. In the short run there is no mechanism for strengthening these linkages, but in the long run structural changes in the production pattern of the economy are important.

6.3.2 Demand Linkages

The factors influencing the demand for industrial consumption goods - both rural and urban in origin - need to be understood clearly. As mentioned earlier, rural demand will be influenced by output changes in agriculture and by the terms-of-trade. If the terms-of-trade improve in favour of agriculture, those who buy agricultural commodities will benefit. It is well known that the bulk of industrial consumption goods in rural areas are bought by upper-income groups. Because they often are also the sellers of agricultural commodities, an improvement in the terms-of-trade in favour of agriculture may increase the demand for industrial consumption goods,. To test this hypothesis, an equation is estimated relating non-food expenditures (in constant prices) of the rural sector to the index of agricultural output (AQI) and the terms-of-trade (TT), which is defined as the ratio of the price of agricultural commodities to the price of manufactured finished products. The independent variables are each lagged by one period. The data used to estimate the equation covers the period 1960/67-1970/77.

The estimated equation for rural non-food expenditures is:

Rural non-food expenditures =

$$-757.287 + \underset{(7.7)}{42.026\, AQI_{t-1}} + \underset{(7.08)}{22.526 TT_{t-1}}$$

$$\bar{R}^2 = 0.95$$

The equation shows that the effects of both agricultural output and the terms-of-trade are positive. The numbers in parentheses are t-values. Both coefficients are statistically significant. The positive coefficient for the terms-of-trade is not only the result of the "Pure" price effect, but also of the effect on monetary income brought about by a rise in agricultural prices relative to prices of manufactured goods. The AQI is substituted for by the index of marketed surplus (MKS) as an independent variable.

The revised equation is:

Rural non-food expenditures =

$$432.584 + \underset{(4.04)}{36.564\ MKS_{t-1}} + \underset{(2.47)}{15.806\ TT_{t-1}}$$

$\bar{R}^2 = 0.87$

Both independent variables are significant in this equation also. In estimating the demand for urban non-food expenditures, income originating in the non-agricultural sector (Y_{NA}) and the foodgrain terms-of-trade (FGTT), which are defined as the ratio of the price of food to the price of manufactured finished products, are included as independent variables. Thus, Urban non-food expenditures:

$$1{,}114.43 + \underset{(3.1\ 8)}{0.234\ Y_{NAt-1}} - \underset{(1\ .24)}{5.275\ FGTT_{t-1}}$$

$\bar{R}^2 = 0.58$

As is to be expected, the coefficient of income is positive and the coefficient of foodgrain terms-of-trade is negative, though the latter variable is not statistically significant.

The major item included in non-food expenditures is cloth consumption. The equation for rural demand for cloth is:

Rural cloth consumption:

$$491.516 + \underset{(1.78)}{3.473\ AQI_{t-1}} + \underset{(7.2)}{8.190\ TT_{t-1}}$$

$\bar{R}^2$: 0.90

The equation for urban demand for cloth is:

Urban cloth consumption =

$$-68.084 + 0.037\ Y_{Nat-1} - 0.341\ FGTT_{t-1}$$

(5.42) (0.84)

$\bar{R}^2 = 0.86$

Income or the proxy for income in both equations has a positive coefficient, whereas the terms-of-trade have a positive coefficient only for rural consumption. The foodgrain terms-of-trade have a negative (though not statistically significant) coefficient for urban consumption.

6.3.3 Savings and Investment Linkages

Agricultural Performance may affect the economy by influencing savings and investment. The effects on Government and on house- holds should be analyzed separately. The savings of Government will be influenced by agricultural output, industrial output, and the terms-of-trade. Rises and falls in output have immediate effects on government revenues and eventually affect government expenditures. For instance, a severe decline in agricultural output may force the Government to undertake relief measures, thereby increasing government expenditures. The terms-of-trade, particularly for foodgrains, also affect government expenditures through their effect on allowances payable to government employees. As a rule, one expects agricultural and industrial output to influence government savings positive and the foodgrain terms-of-trade to influence them negatively. Both influences may work with a lag.

The household sector includes individuals and all non-corporate forms of business. Household savings are largely influenced by income. The effect of the terms-of-trade on household savings is analogous to their effect on the demand for industrial consumption goods. Rural savings are influenced positively whereas urban savings are influenced negatively. A survey conducted by the National Council of Applied Economic Research (NCAER) shows that in 1967/68, net rural and urban savings were Rs. 1,296 crores and Rs.708 crores respectively. Thus rural savings were 1,83 times higher than urban savings. If unit is the pattern of household savings, the total effect of the terms-of-trade on household savings and therefore, investment can be positive.

The effect on the corporate sector can be traced directly to investment. Output both agricultural and non-agricultural, will influence corporate investment positively through the effect on the demand for industrial goods. An increase in agricultural prices relative to industrial prices will have a negative influence. There are two reasons for this. First, a relative increase in non-foodgrain prices adversely affects the profitability of agriculture-based industries by increasing the costs of production. Second, a relative increase in foodgrain price may push up the wage costs, thus reducing Profitability.

During the period 1961-65, the average of the index of the net barter terms-of-trade between agriculture and industry was 104.6. During the period 1966-70, the average of the index was 123.48. For 1,259 medium and large public limited companies surveyed by the Reserve Bank of India during 1961-65, the average profits were 10.3 per cent of total capital employed. During 1966-70 this percentage, for 1,420 medium and large public limited companies, fell to 9.4. Industries not depended on agricultural inputs are adversely affected only by an increase in foodgrain prices. Agriculture-based industries are affected not only by the prices of foodgrains but also by the prices of non-foodgrain agricultural products. Profits as a percentage of the total capital employed fell more conspicuously in agriculture based industries than in others.

The estimated equations relating to household and government savings and corporate investment are presented below. Savings are measured in constant prices. Current price figures are deflated by the implicit investment cost index or the central statistical organization. The data used cover the period 1952/53-1972/73. For the household sector, two independent variables are used - the index of national income in constant prices (NYI) and terms-of-trade (TT). The same independent variables are used to explain corporate investment. For government savings, in addition to national income, the foodgrain terms-of-trade are used as an independent variable.

Therefore, household savings =

$$-2{,}910.25 + \underset{(7.2)}{27.07\ NYI_{t-1}} + \underset{(2.2)}{17.3ZTT_{t-1}}$$

$\bar{R}^2 = 0.93$

Government savings =

$$-122.667 + \underset{(10.91)}{10.3\ NYI_{t-1}} - \underset{(2.81)}{4.25\ FGTT_{t-1}}$$

$\bar{R}^2 = 0.88$

and Corporate investment :

$$-451.66 + 8.86\ NYI_{t-1} - 9.79\ TT_{t-1}$$

$$(6.68) \qquad (3.51)$$

$$\bar{R}^2 = 0.74$$

Income has a positive effect on the savings of both households and Government. The terms-of-trade have a negative effect on investment in the corporate sector and on government savings, whereas, they have a positive influence on household savings.

6.4 SUMMARY

Agriculture influences industry in many ways. It provides the raw materials needed by agriculture – based industries. It generates direct demand for the output of consumption goods industries. It creates indirect demand for the output of basic and capital goods industries through its effect on the savings and investment of the different sectors. The main conclusion that emerges from this analysis is that agriculture exercises a reasonably strong influence on the growth of industry. However, because the ability to raise the agricultural growth rate is limited, industry cannot rely on agriculture alone to stimulate growth. The effects of agriculture's performance are felt by the consumption goods industries and by the basic and capital goods industries. The effect on demand for industrial consumption goods is direct. The effect on the output of basic and capital goods occurs through savings and investment. The savings and investment of different sectors are affected by the size of agricultural output as well as by the terms-of-trade between agriculture and industry. The effects on the output of the capital and basic goods industries are less strong than the effects on the output of consumption goods industries.

The importance of agriculture for industry lies not only in the raw materials supplied by agriculture but also in the demand for industrial output it generates. The quantitative estimates of the linkages show that the impulses generated by agriculture can have an important influence on the rest of the economy.

Therefore, both the sectors play an important role in the development process. Addition to it, both are interdependent on each other in one way or the other.

6.5 QUESTIONS

Q.1 Explain the link between agriculture and industrial sector.

Q.2 Explain the salient feature of agriculture and industrial sector.

Q.3 Define production and demand linkages between agriculture and industrial sector.

M.A. ECONOMICS | LESSON NO. 7
COURSE NO. 560 | SEMESTER-IV | UNIT-II

PLANNING FOR AGRICULTURE - CHALLENGES AND OPPORTUNITIES IN THE 21ST CENTURY AND INDIAN AGRICULTURE: EMERGING PERSPECTIVES AND MAJOR POLICY ISSUES

Structure

7.1 OBJECTIVE

After going through this lesson, you will be able to :

- Describe the challenges and opportunities to Indian agriculture sector in the 21st century.
- Explain various emperging perspective and major policy issues related to agriculture

7.2 INTRODUCTION

Our country has still to overcome the problem of poverty. Today an estimated 350 million out of one billion people fall below the poverty line. More than 60 per cent of the population is still dependent on agriculture for its livelihood and employment. The major issue of concern is that although the share of agriculture in the national income has come down rapidly, the proportion of the population dependent on the agricultural sector has changed only marginally. Providing gainful employment opportunities for the rural population in the agricultural sector will be an uphill task in a scenario where land holdings are small and continuously shrinking, and the pressure on land keeps increasing. This calls for vigorous efforts to create sustainable employment avenues for the rural population, especially the rural poor.

7.2.1 Achievement of agriculture

Due to innovative planning, well focused agricultural research and growth oriented policies; we have become a self-sufficient and food secure nation. Foodgrain production went up from 82 million tonnes in 1960/61 to a record level of 203 million tonnes last year, with an annual buffer stock ranging from 20 to 30 million tonnes during the nineties. Our agricultural performance has been globally acclaimed for ensuring that growth in foodgrain production remained consistently higher than growth in population.

The performance of the oilseeds, commercial crops and livestock sectors was also remarkable. Oilseeds production increased from million tonnes in 1960/61 to 25 million tonnes in 1999. Sugarcane production has gone up to nearly 300 million tonnes from 110 million tonnes in 1960/61. There has been a quantum jump in potato production from less than 3 million tonnes to 23 million tones. Likewise, milk production has gone up sharply from 20 million tonnes to 75 million tones.

Thus, despite rising population, per capita foodgrain availability has increased from less than 400 gms per day in 1950/51 to 510 gms in 1997. Per capital milk availability has also increased from 125 gms per day to 204 gms. These are no mean achievements, and we can take pride in them.

These successes provide reasonable grounds for hope and confidence that our agricultural experts will measure up to the challenges that lie ahead.

7.2.2 Challenges

1. **To ensure adequate and sustained increase in food production:-** We should recognize that the task our agricultural scientists have to tackle may be even more complex and difficult than what they face in the past. The most important challenge before us is to ensure adequate and sustained increase in food production to meet the nutritional needs of a growing, healthier population. Our population has just crossed the one billion mark, and experts have projected that we would be overtaking china by 2035 as the world's most populous country. To feed this growing population, an additional tonnes of foodgrains will need to be produced annually. In addition we have to recognize that balanced nutrition, which is essential for the health of our people, demands the consumption of a wide array of food-stuffs. These too must be provided without compromising on the provision of the basic caloric requirements. All this will have to be done in a context which is less favourable than it used to be.

2. **Limited Area of cultivation:-** we need to recognize that the scope for expansion of area available for cultivation is limited. In fact, there is possibility that cultivable area may shrink somewhat. Environmental considerations, which are just as important for that well-being of our people, demand that area under forest cover be increased from the dangerously low levels that it has reached Demands of urbanization and industry too will eat into our cultivable land, though we should keep this to the minimum. These are imperatives that we cannot ignore.

3. **To increase sources of agriculture growth:-** The past sources of agricultural growth have also been almost saturated. For example, high yielding varieties have already spread to more than three-fourth of the area under rice and to more than 90 percent of the area under wheat. In such a scenario, the question of how to increase our agricultural production takes on an added urgency.

4. **Special attention to rainfed areas:-** A larger share growth in the agricultural sector can come from rainfed region in region-specific innovative planning is done and appropriate policy , are pursued. Rainfed agriculture today supports about 40% of the population and 75% of the poor in the country. Currently, it contributes nearly 45% of the foodgrain production in the national food basket. Rainfed regions need protected irrigation for increasing agricultural production and crop intensification. This can be achieved through improved rainwater harvesting management techniques. Promotion of improved water management practices, use of sprinkler and drip irrigation, and farmers' participation in irrigation management need due recognition in the planning process. Government is already giving considerable attention to rainfed agriculture, and resources have been allocated for watershed development through various approaches, ranging from the traditional to the modern. Increasing agricultural production in rainfed regions will not only increase total agricultural production but also generate employment opportunities for the rural poor and also check degradation of soil and water resources. To achieve these goals, region-specific planning would be required due to the wide range of agro-ecological variability that exists in our country.

5. **To create region-specific planning:-** Region-specific planning would also be necessary to tackle regional disparities in agricultural productivity and income which have increased perceptibly, and the gulf between developed and underdeveloped regions which has widened. Whereas the northern and western regions have performed remarkably well, the eastern and northeastern regions have lagged behind in agricultural development. For example, the yield of rice in eastern states is still only half of what has already been achieved in the northern regions. In some of the eastern states, the current yield levers of

rice are as low as what Punjab achieved in the early 1970s. It may well be what in the past, higher priority was given to the better-endowed regions with the expectation that the spillover effect would carry the benefits to the other regions However, we need to recognize that this has not happened.

6. **To reduce unbalanced regional development and disparities:-** As a result of this unbalanced regional development and widening disparities, a large number of rural poor have been forced to migrate to developed regions and urban areas in search of jobs. Mitigating, and eventually bridging, regional imbalances through increased agricultural productivity and creation of more productivity job opportunities must be high on the priority list of agricultural planners during the twenty first century.

7. **To harness the potential of eastern and north eastern region:-** Fortunately, the eastern and northeastern regions have large untapped ground water reservoirs. These regions are endowed with enough natural resources, but the production levels are low. Systematic efforts to harness the potential of these regions for agricultural development and growth should form an important component of our strategy for this sector. However, these regions are lagging behind in infrastructure development. Investment in ground water development, electrification, markets and roads would yield high private as well as social dividends. Many of the improved science-based agricultural technologies have not reached these regions due to poor infrastructure facilities, and this would need to be remedied expeditiously.

8. **To improve the information stock of the farmers:-**There is a need to improve the information stock of the farmers in such regions. In fact, the extension service network needs to be strengthened in all regions. It should be fully supported by a strong service sector, which would ensure timely supply of required inputs to increase agricultural productivity. The planning process in the 21st century should take full advantage of the reach and enormous potential of information technology for rapid information dissemination in the rural areas.

9. **Diversification of agriculture:-** In the past, diversification of agriculture was

not given due attention. There are ample opportunities for diversification of agriculture through development of livestock, horticulture and fisheries. The livestock sector has immense potential for complementing and accelerating the growth of the agriculture sector. The productivity of our livestock sector, in term of milk meat, wool, and eggs, is the lowest in the world. Though we are the largest producer of milk, we are far behind many developed countries in terms of productivity and per capita availability of milk. The fishery sector has remained underdeveloped. There is ample scope to increase inland fish production. We have about 14 lakh hectares of brackish water area suitable for production of shrimps. Hardly 10% of this area has been utilized for production purposes. These sectors would have to grow in the 21st century and contribute significantly to the economic growth of the nation. These sectors can also provide considerable employment opportunities, especially to small and marginal farmers and landless laborers. Our planning process should take greater cognizance of these sectors for achieving value-addition, and thereby raising incomes and generating employment opportunities in the rural areas.

10. **To develop environmentally sustainable agriculture:-** There is also the issue of environmentally sustainable agricultural development. In the past, excessive focus on intensive agricultural growth has resulted in degradation of natural resources. The Green Revolution of the mid-1960s could have also contributed to the over-exploitation of natural resources. To an extent, this exploitation and mismanagement of natural resources was induced by an under-estimation of the capacity of our farmers, and made worse by over-enthusiastic populism. For example high subsidy on canal waters, electricity, nitrogenous fertilizer, among others, induced farmers to overexploit soil and water resources without recognizing the dangers inherent in such behaviour. Problems of soil salinity, water logging, declining water table, deteriorating water quality nutrient mining and acidification of soils are often reported in those regions which witnessed the green revolution. On the other hand, the regions, which are still operating at subsistence levels, are experiencing large scale degradation in the form of soil erosion, nutrient mining, deforestation and desertification due to the low investment capacity of the farming community

and inadequate focus by the government.

11. **To conserve natural resource to meet the current and future requirements of growing population:-** The cumulative effect of degradation of natural resources has led to deceleration of agricultural growth. Conserving natural resources to meet the current and future requirements of the growing population would be the biggest challenge in the 21st century. Sustainable agricultural production calls for effective planning and environment-friendly technologies and policies.

12. **To increase public investment in agriculture:-** Declining public investment in agriculture is another area of concern. During the early-1980s, about 9 per cent of the net domestic product was ploughed back for capital formation in agriculture which has come down to only 5 per cent during the 1990s. This trend needs to be reversed to avoid the potential adverse effect on agricultural growth and regional performance. Inadequate public investment in the rural infrastructure is also a major challenge. The planning process has been laying emphasis on development of irrigation, roads and transport facilities, credit institutions, markets, warehousing and cold storage facilities, electrification, etc, but considering the vast geographical dimensions of the country and the order of investment required, the existing allocations are relatively scanty and inadequate. The resolution of this problem calls for considerably greater private sector involvement and partnership in infrastructure's development and the processing industry. Any policy and procedural hurdles in encouraging greater private sector participation will have to be identified and removed with a sense of urgency.

13. **To remove quantitative restrictions and reduce tariff rates:-**The domestic and international economic environment is changing rapidly since the early 1990s. Agricultural and food subsidies have been very sensitive issues. Considering the social objectives of subsidies in agriculture and their high political sensitivity, any reforms in the input sectors, involving withdrawal subsidies, have to handled with care by policy makers, who have also to take into account the opening up of international markets for agricultural commodities in the wake of implementation of WTO agreements. As a member of the

WTO, we have to remove quantitative restrictions and reduce tariff rates. The import regime will also not be the same. We may trade freely in international markets, but the real issue we have to analyse and assess is as to how it would affect our producers and consumers in terms of efficiency gains and equity aspects. The new trade regime may also affect our natural resource base. These issues need careful and objective assessment. The emerging trade environment calls for appropriate planning for those regions and groups which we expect will be adversely affected. The growth and development of our agricultural sector will depend on our clear-sighted pursuit of national interests and our ability to respond swiftly to a rapidly changing international economic environment.

7.2.3 Opportunities

1. **Abundant Natural Resource:-** Globalization, however, is not just a threat; it also throws up a number of opportunities. We are richly endowed with natural resources and climatic variety. We have one of the largest reservoirs and potential for bio-diversity in the world. There is hardly any crop that cannot be grown in our country. Implementation of WTO agreements is expected to increase our access to the world market. Currently, our share in world export is less than one percent. We need to identify commodities where we have a comparative advantage in the global market. We need to improve our quality standards if we have to compete in the world market. We have the advantage of availability of a relatively cheap and extremely hard-working labour force. We need to assess how this important resource can be utilized more productively to promote labour-intensive activities for competing in the global market.

2. **Availability of agricultural scientists:-** We also have among us some of the best agricultural brains in the world, who have always risen to the occasion in the past. These scientists will again take up the challenge and come up with innovative solutions. The nation expects no less of them.

3. **Huge stock of technology:-** In the agricultural sector, it is high time that India takes stock of all available technologies and devises ways of using them for food grain and other crop production. This not only calls for extensive exploration

of alternative possibilities but also requires an immediate long term technology plan for Indian agriculture. In this direction, the frontier technologies, including biotechnology, should be included in the overall work programme so as to get viable solutions to the productivity related problems. Some of these technologies are capital intensive. In their case, one may consider co-operation between industry and Government to exploit economies of scale and overcome capital and infrastructure deficiencies.

Conclusion

India has great expectations from its agricultural scientists and the system which is responsible for transferring agricultural technologies to the farmers.

7.3 INDIAN AGRICULTURE: EMERGING PERSPECTIVES AND MAJOR POLICY ISSUES

Two major economic changes have occurred during early-1990s, which are likely to have far reaching implications on India's economic development in general and agriculture in particular. Any strategy for agricultural sector, if it is to be realistic, must pay due recognition to these economic changes.

First, India launched a process of economic reforms since July 1991. The process was initiated first in the industrial sector during early-1990s, and thereafter inched towards agricultural sector, with occasional hiccups and reversals in the later years of the reform process. Second, the Uruguay round of GATT was concluded with India as one of the signatories. Agriculture has been brought in its fold for the first time, and its trading rules are being rewritten. The Doha Development round was launched in November 2001 with a view to further liberalizes the world agricultural markets. Although the Doha Development Round ran into rough weather during the fifth Indian Economy and Society in the Era of Globalization and Liberalization ministerial conference of the World Trade Organization (WTO) in September 2003 at Cancun in Mexico, yet it would be naive to presume that Indian agriculture will remain insulated from the world agriculture for long. It would be only appropriate for India to assess the likely implications of emerging global changes, and accordingly re-chalk her agricultural strategy with a view to maximize gains from the new opportunities opened by trade under WTO, and to guard from any possible adverse impact from trade liberalization.

Obviously, a desirable strategy would be the one that can make Indian agriculture a vibrant and cost effective sector boosting production of food and fiber, raising consumption levels through domestic production and exchange (export/import), generating productive employment and thereby acting as the most effective 'safety net' and poverty alleviating programme, while duly protecting the environment. It is this type of a strategy that can put Indian agriculture, and also overall growth of the economy, on a sustainable path.

7.3.1 Emerging Perspectives and Goals of Agricultural policy

An interesting feature of the recent experience is the deceleration in the demand growth rate for food grains, despite the rise in per capital income and the decline in the relative prices of foodgrains. This downward shift in the demand for food grains is basically attributable to the changing consumer tastes and preferences on account of increasing availability of a wide range of non-agricultural goods and services in rural areas, within an institutional framework where there has not been any improvement in the distribution of income over a long period. This is dramatically illustrated by the trend of a significant decline in the per capita consumption of food grains in rural Punjab and Haryana, despite a high per capita income growth. In these states, the energy requirements on account of manual labour would have declined due to the increasing mechanization of agriculture, and the demand for, as well as the availability of, a wide variety of non-food grain and non-agricultural consumption goods would have increased both on account of the rise in per capita incomes and the rising levels of development in general. This emerging scenario in respect of food balance opens up the prospects for, and indeed necessitates, the export of food grains, especially in view of the comparative advantage that the country enjoys in respect of the production of rice and wheat in most of the years. The export potential of food grains would help further strengthen the food security at home.

Achieving food security has so far been the overriding goal of agricultural policy in India. Opening up agricultural trade should now be seen as a major opportunity for raising overall economic growth rate by exploiting the comparative advantage that India possesses in agriculture, improving the efficiency of resource-use in agriculture, technological upgradation of the rural sector, and for providing the much needed safety net in the process of structural adjustment by way of greater employment and income generation for the poor as well as softening the rigour of inflation.

Opening up trade will improve the incentives by raising producer prices, even after the subsidies are cut down substantially. However, non-price factors such as public investment in infrastructure, technology change, human development and institutional reforms are at least as important as incentive prices, in induced effective supply response even effect of price-induced innovations are accounted for. Therefore, a big push in public effort on the former set of measuring is called for, particularly in areas where there is strong complementarily with private investment. Indeed, the pace for freeing trade should bear some rational relationship to the domestic supply augmentation, so that there is no undue rise in the domestic prices of essential food items. Such sequencing is necessary for ensuring equity even with the proper targeting of the public distribution of food grains, as the consumer expenditure on food as a proportion to the total expenditure is sizeable in a low income country like India.

Further, such a policy is necessary for sustaining the process of economic reform itself in a populous democratic polity where the incidence of absolute poverty is still quite high.

7.3.2 Major Policy Issues

Following are the major policy issues:

1. **Development and Diffusion of Technology:** Adequate funding of public research, appropriate economic signals for setting right priorities in research, whether public or private' and favourable institutional framework and the resulting incentives for the absorption of new technology are the three basic prerequisites for the proper development and diffusion of new technology. These are best ensured when the demarcation of the relative roles of the state and markets or the public and private sectors in agriculture is rational, A number of studies have shown that favourable macro-economic environment including openness in trade have been conducive to the adequate development and diffusion of new cost-reducing technologies in agriculture. This has happened on account of favourable terms of trade for agriculture, inducement to improve quality and reduce costs for becoming internationally competitive, prices reflecting truly the scarcities of resources so that research is directed to save on the scarce factors and

the adequate allocation of resources-public as well as private-for research and extension.

Heavy subsidies on inputs like chemical fertilizers, surface irrigation, electricity for pumping water and on farm credit, apart from causing macro-economic imbalances and shortage of resources for public investment in research and other infrastructure, discourage research in new areas like biotechnology which saves on chemical inputs and is environment-friendly, discourage the development and adoption of innovations for the conservation of water and energy in general, encourage capital intensive techniques.

The achievement of the Indian agricultural system so far in respect of raising yields in the unirrigated and the unfavourable agro-climatic regions are not comparable with those realized for the irrigated areas in the early years of green revolution. Even in irrigated areas, the yields under the seed-fertilizer technology have been hovering around their peak for some time. The tool of emerging biotechnology like genetic engineering, tissue culture and so on seem to offer significant possibilities for breaking these barriers. Although, some advance centres of research in biotechnology have been established in the country, it is not clear how such priorities find their place in the existing agricultural research system in India. It is necessary to have a fresh look at the priorities of the Indian agricultural research system in the light of these emerging prospects and for adequately talking into account the socio-economic factors relevant in the evolution of new technologies. India is currently investing only about 0.3 per cent of its agricultural gross domestic product in agricultural research as against 0.7 per cent in the developing countries as a whole, and as much as 2-3 per cent in the developed countries. Therefore, there is considerable scope for diverting incremental outlays for the priority areas in research.

2. **Irrigation:** Irrigation has been the cradle where HYV seeds and fertilizer consumption thrived to bring about a green revolution in Indian agriculture during late-l960s and early-1970s. In the course of 50 years of planning. India has exploited nearly 60 per cent of its available irrigation potential. In the irrigation sector, highest priority may be given first to maintain the existing irrigation facilities, and then to develop rest of the irrigation potential in the country. And this cannot be done without significantly stepping up the rate of investment in this sector. There are estimates that at the current levels of investment, the projects in hand will take about 28 years for completion. This

needs to be brought down to about 10 to 15 years. For this the rate of investment will have to be almost doubled. In order to generate resources for accomplishing the above task, it is essential that pricing of canal waters, as also institutional reforms in its management and ownership be given due importance. Financial autonomy of irrigation departments with a condition that they have to recover at least all the O&M expenses from the beneficiaries can be one of the ways to precede with reforms in this sector. Also, a two part tariff system for pricing, and involvement of water users associations (WUAs) in management and ownership of canal networks (starting with distributaries') through 'water bonds' should be placed high on the agenda for reforming the irrigation sector. An Expert Committee of Government of India has highlighted the problem, and suggested a two part tariff system for pricing of canal waters. First, there should be a fixed charge to the farmers who happen to be in the command area of the canal; and two, have a volumetric price (in the long-run) for the quantities of water used by the farmers. If one were to recover ail O&M charges and 1 per cent of the capital cost, the charge to the farmers is not more than 6 per cent of the gross output on their irrigated lands. This is very much within the charge of 5 to 12 per cent recommended by the Irrigation Commission of 1972.

In the case of groundwater, the prime concern remains that of overdrafting, which is not a healthy sign as the economy's capacity to depend upon this "buffer" during years of drought is adversely affected. One of the important steps to check this problem of overdrawal would be to introduce volumetric pricing of electricity, while involving farmers' organizations in the collection of electricity dues on commission basis. In case collection of electricity dues through farmers' organizations fails, it would be desirable to give it to the private corporate bodies. While the power sector reforms envisage a significantly larger role for private sector in generation, we feel it will remain partial without privatizing the distribution.[2] In fact, privatization of power distribution should have preceded privatization of power generation. The other would be to evolve a proper institutional framework whereby surface and enter could be monitored, and overdrafting of groundwater can be avoided/ minimized.

Water conservation schemes with the help of farmers (preferably under their ownership) in dry land areas need to be undertaken at a much larger scale than has been the case so far, attracting financial resources from the farmers wherever feasible.

Salinity and waterlogging problems in the commands of major irrigation schemes can be minimized by recognizing them explicitly at the designing stage itself and corrective measures contained in the scheme. Conjunctive use of surface and groundwater can go a long way in addressing this problem, and appropriate steps be taken for its promotion. Appropriate pricing of water and electricity will also help in this direction. Further, proper drainage facilities, involving farmers' groups, need to be created where this problem has become very acute.

3. **Fertilizers:** In the case of fertilizers, there seems to be an overriding concern for removal of subsidies. This concern emanates primarily from its burden in the central budgets rather than from the desire to reform the fertilizer sector as such. To find a way out of the present day concerns without harming the long term objectives of this sector, it would be worth noting the major findings of research in this area.

An interesting finding of the empirical studies is that the rate of adoption of fertilizer use is somewhat lower amongst small farmers compared to large farmers, owing mainly to credit constraints, but those who adopt use higher doses of fertilizers than the big farmers. This relationship is more pronounced on unirrigated and partially irrigated plots, but breaks down on irrigated ones. In fact on irrigated plots larger farmers use higher doses of fertilizers than small and marginal. It is possible that small farmers improve the quality of their unirrigated plots through the use of surplus labour whereas the quality of irrigation is better on large farms on account of higher investment in minor (controlled) irrigation.

The use of N, P and K is quite unbalanced not only in low consumption areas but even in high consuming and advanced pockets. The responses (average and marginal) of wheat and rice to fertilizer consumption (NPK) are highest in Central (Madhya Pradesh and Rajasthan) and Eastern (Bihar, Orissa, West Bengal, Assam and other NE states) regions, and Uttar Pradesh. This indicates that there is sizeable scope of raising wheat and rice production simply by inducing redistribution in the consumption of fertilizers in favour of high response regions, and by promoting balanced use of N, P and K through appropriate policy measures.

Research elsewhere also shows that fertilizer consumption has lately become more sensitive to its real price than was the case about two decades ago, presumably because of lower fertilizer response at higher levels of consumption. This is particularly true of those pockets that use fertilizer consumption very intensively and account for substantial share in all India consumption of fertilizer. But the elasticity of fertilizer consumption to its real price still remains much below its elasticity with respect to non-price variables.

7.3.3 Implications for Policy:

a) First, wider distribution of fertilizers needs to be promoted by covering the regions which have hitherto used very low doses of fertilizers (for example, central and Eastern regions and Uttar Pradesh in case of wheat and rice). This is a challenging task as a pre-condition of its success would be to launch a massive drive towards water conservation schemes on the one hand and drainage on the other. This is because quite a sizeable chunk of this area suffers from water logging in irrigated tracts. Harvesting water in water scarce regions and proper drainage in water logged areas can set the ground for adoption of HYVs and the demand for fertilizers. Besides, an extensive network of rural infrastructure needs to be created (including roads and credit) in these regions, which will facilitate timely and adequate supplies of fertilizers, particularly in the Eastern states. Such a network of rural infrastructure will also help in establishing an appropriate interface of input markers with output markets in these regions.

b) Second, a boost to soil testing facilities and extension effort to educate the farmers regarding the benefits of balanced use of fertilizers would go a long way. This needs to be reinforced by transmitting right pricing signals (relative prices of N, p and K), which are historically at most distorted levels. There is a large scope to increase production simply by promoting balanced use of N, P and K, and by removing micro-nutrient deficiencies.

c) Third, subsidies are no longer required to promote this “new” input; if they have to be given they should be targeted to low consumption areas where response is highest (for example, Eastern and Central regions, and UB especially for wheat and rice).

d) Fourth, production of fertilizers has to be made efficient by withdrawing Retention Price Scheme and exposing the domestic production to foreign competition by decanalising imports of fertilizers along with a provision of reasonable import duty to safeguard against any dumping or abrupt drop in international prices.

e) Fifth, the farm gate price of nitrogenous fertilizers needs to be gradually raised and then decontrolled, especially when P and K have been decontrolled. It would give correct pricing signals for balanced use of N, P and K, and thereby help in raising agricultural production with the same amount of total fertilizer consumption.

f) Sixth, to minimize the possible adverse impact of this rise in farmgate price of fertilizer, the savings in fertilizer subsidy be ploughed back into basic agricultural infrastructure such as watershed programme in moisture stress areas, which in turn will raise the fertilizer demand in those high response regions. Further, organic manure may be accorded a high priority for its eco-friendly characteristics compared to chemical fertilizers, and also because it may be more attractive economically once subsidies are phased out from chemical fertilizers.

7.3.4 Institutional Reforms

1. **Credit Reform:** Credit for agriculture has to expand at a faster rate than before because of the need to step up agricultural growth for generating surpluses for exports, and also because of the changing product mix towards animal husbandry, fisheries, horticulture etc., which will necessitate larger investments.

In view of the scarcity of credit and the very high rates of interest charged in the informal credit markets in rural areas, the small and marginal farmers stand to benefit immensely from the easy and timely availability of credit from the institutional sources rather than from the low rates of interest charged. It would, therefore, be essential to ensure the availability of institutional credit to the farmers, particularly the small and marginal farmers, by ensuring a stipulated share for agriculture, as is being done at present. In the absence of such a stipulation, the well-known tendency on the part of the bankers to reduce unit costs by serving a small number of big borrowers rather than a large number of small borrowers would result in squeezing credit to the needy sections. Although there is a marginal improvement in the growth rate of direct institutional credit to agriculture and allied activities in the 1990s, the growth of credit to the small and marginal farmers and for investment slowed down considerably.

Credit institutions need to be accorded greater autonomy by doing away with administrative and political interference in their day-to-day functioning. The managerial cadre and other staff have to be made more professional through proper recruitment and appropriate training. The loan advances should be based on the professional appraisal of projects instead of being based on the targets for the disbursement of credit, as is often the practice now. Loan sanctions should be accompanied by professional follow-up to ensure the profitability of investment by reducing the rate of mortality and sickness in these ventures.

The follow-up services for enhancing the productive utilisation of credit, and the repayment performance could be improved through group-lending schemes. Participation of voluntary agencies, women activists, thrift societies etc., especially in the backward regions, would contribute to reducing transaction costs to the banks as well as clients. All this would call for the reorientation of the outlook of banks, posting of competent personnel in rural areas, and a system of incentives and rewards related to the performance of the specific tasks having a bearing on long-term development as well as meeting the needs of the weaker sections.

2. **Agrarian Reforms:** The ceiling on the ownership of land holdings served to arrest the concentration of land ownership and, indeed, there is evidence of some decline in the concentration of land ownership. However, owing to population growth and sub-division of land holdings, the average size of both ownership and operational holdings has come down, even though the proportion of area held by the small and the marginal farmers has increased. The proportion of area held under tenancy especially pure tenancy, has declined on account of the resumption of land by the owners for self-cultivation induced by technology change as well as impelled by the tenancy legislation. This explains the rise in the concentration of operational holdings, although this concentration is still lower than that in ownership holdings because small and marginal holdings still lease-in more area than they lease-out and large holdings lease-out more area than they lease-in. Freeing lease market for land may contribute to equity as well as efficiency of resource-use. The pure tenants as well as the small and marginal farmers would be able to augment their operational holdings by leasing-in area in

situations where there is pressure on land and where wages are low and poverty is high. This may also contribute to the more efficient use of land, labour and other resources. On the other hand, in areas experiencing technological change and high growth where population pressure on land is low and wages are high, the marginal farmers may gain by leasing-out their area and taking up non-farm employment. In such situations of high wages and high rate of mechanization, the medium and large farmers leasing-in area would be able to make a fuller use of their fixed equipment. Experience also shows that consolidation of land holdings and improving land records will give a fillip to investment in irrigation by raising the profitability of such investment and by improving credit-worthiness of farmers.

Besides, freeing up lease markets for land, there is also need for introducing some innovative institutions that facilitate vertical integration between farms, firms and forks (retail chains). This is particularly needed to fully exploit the potential of high value agriculture, the demand for which is rising at much faster pace than cereals. This high value agriculture comprising of fruits and vegetables, dairy, fishery, poultry, etc. is perishable in nature and has high post-harvest losses emanating from lack of infrastructure, processing facilities and assured markets. Retail chains and processing facilities need to be encouraged at large scale, with backward integration with farmers, be they under private or cooperative sector, with domestic or foreign investments. The next revolution in Indian agriculture has to come from value addition, but the policy environment is still embedded in commodity production rather than upstream value addition. It would require different kind of institutional environment and infrastructure investments, if this revolution has to succeed.

7.3.5 Participation of Women

There has been an increase in the participation rate of female labour in agriculture. This is due to the rise in the seasonal demand for labour for operations traditionally performed by female labour following the spread of new seed-fertilizer technology, the rise in the demand for female labour in activities like dairying and to the increase in the employment of male labour in non-agricultural activities. As a result, there has been a rise in the real wages of female labour relative to those for male labour. However, the levels of labour input as well as wages are still lower in the case of female labour when compared to male labour.

Apart from improving agricultural practices and protecting environment, strengthening the position of women farmers and female labour, in general, contributes significantly to the well-being of the household, as women allocate a greater part of their income for household expenditure than men, thus improving the nutrition and care of children, particularly girls. Changes in property rights in favour of women, evolution of technologies to suit women farmers, increasing the number of women extension workers, education and training of women farmers, strengthening the thrift societies run by women, and other such measures may help them to better exploit the emerging opportunities.

7.4 SUMMARY

The process of economic reforms, as also the gradual opening up of Indian agriculture, has helped turn the terms of trade in favour of agriculture. It has created a better incentive environment for agriculture than had been the case during preceding decades. To fully exploit this opportunity, a major reform in supply side factors and institutional structures is needed besides a clean sweep to dismantle all export controls on agricultural commodities as well as domestic controls in terms of stocking limits, movement restrictions, levies, and so on. It is these supply side factors –technology fertilizers, irrigation, infrastructure, and credit-and institutional innovations that can create ennabling environment for participation of small holders, which raise aggregate supply response, and can be the prime movers behind accelerated and sustainable growth of Indian agriculture. Further, as demand shifts from cereals to high value agriculture products such as fruits and vegetables, milk and milk products, meat and fish, etc. it would require major investments in fast moving infrastructure as well as innovative institutions that facilitate vertical integration of farms with firms and retail chains. It is such institutional innovations that would cut down transaction costs, reduce market risk and post-harvest losses, introduce proper grades and standards, food safety norms, and make Indian agriculture not only globally competitive but also put it on a higher growth trajectory with participation from small holders as well.

7.5 QUESTIONS

Q.1 Explain various challenges and opportunities of Indian agriculture in 21^{st} century.

Q.2 What are the major policy issues in Indian agriculture sector ?

Q.3 Discuss institutional reforms in agriculture sector.

Q.4 Discuss emerging perspective and goals of agriculture policy.

M.A. ECONOMICS		LESSON NO. 8
COURSE NO. ECO 204	SEMESTER-II	UNIT-II

LAND SYSTEM AND ITS REFORMS IN INDIA, CRITICAL APPRAISAL OF FOOD SECURITY POLICY

Structure

8.1 OBJECTIVE

After going through this lesson, you will be able to :

- Understand the land reform programme in Post-independent period.
- Discuss various emerging perspective and policy issues involved in land reform.
- Critically evaluates food security policy.

8.2 INTRODUCTION

Even with a dismal if not pathetic record of performance, Land reforms programme in India enjoys such a high respectability and popular support, that an adverse criticism of it is viewed almost as a sacrilege. This love and faith on the programme, however, was shaken by the economic crisis that surfaced in 1991. Several scholars are now acknowledging the futility of its further continuation, and urging the governments to make changes in land policy (Dandekar, 1994; Vyas, 1994; Rao and Gulati, 1994; Appu, 1995). Persons passionately involved with the programme too agree that it needs a more dispassionate re-examination.

To appreciate the context in which the need to recast the land policy is now felt, this study makes an attempt to review the land system and its reforms in India. A summary account of the land reforms programme in post-independent India is presented first. This is followed by presenting an appraisal of the last five decades experience of implementing land reforms programme. It is against this background the emerging perspectives and policy issues are discussed in the last section. To provide flavors of the comments and criticisms made on the subject, the study borrows liberally from the writings of some keen observers of Indian rural scene.

8.2.1 Land Reforms programme in Post-independent India

At the time of Independence, India inherited a semi-feudal agrarian structure with onerous tenure arrangements over substantial areas. The ownership and control of land was highly concentrated in a relatively few landlords and intermediaries. The principal interest of this controlling group in agriculture was to extract maximum rental from tenants, either in cash or in kind. Often tenants of land intermediary and landlord control sublet their lands in smaller plots to working cultivators, thus smaller holdings increased. Under this arrangement, economic motivation to develop farm land for increased production or to improve the economic conditions of cultivators was lacking. At the same time, working cultivators after paying high rent had no surplus to invest in farm improvement. They had neither resources nor knowledge for increasing agricultural production. Thus the agricultural land resource of India, along with it, operators were gradually impoverished because economic motivation tended toward exploitation rather than toward investment and improvement.

With increasing pressure on land the operating land base of many working cultivators was further reduced. Land occupancy rights became increasingly insecure. Often cultivators were continuously shifted from one plot to another according to the whims of superior holders. Land was divided into small fragments, each owned or leased by cultivators whose objective was subsistence. Together then, the size and distribution of land holding, cultivation practices and product sharing, operated concertedly to hold down farm income. Over time, a large number of farms became disincentive-ridden due to size disability. A substantial portion of such cultivators sought to supplement their farm income by working as hired laborers competitive with even poorer landless workers. Independent India thus emerged with serious imbalances in man-land relationship among the three principal groups in the agricultural sector, viz., proprietors, working cultivators and labourers.

8.2.2 Policy Objectives for Structural Reorganization

Following Independence, land reform as well as the abolition of intermediaries was considered an essential prerequisite for increasing agricultural production and for establishing an egalitarian society. Each of India's Five year plans since 1951 had set forth a policy for land reform. The rand reform programmes were built around three major types of land reform measures: abolition of intermediary tenures, regulation of size of holding and, settlement and regulation of tenancy. As a result of these programmes, it was hoped that a different set of rights and duties would emerge in which the freedom of each interest would be regulated and some interests considered harmful for progress in agriculture would be eliminated.

Land policy as laid down in the First Five year plan can be viewed from two angles: (i) conception of different interests in land, and (ii) the effect of man-land relationship on agricultural production. It was conceived that the freedom with which intermediaries transacted their business had an adverse effect on agricultural production. The First Plan, therefore, set out to regulate the interest's of intermediaries, large owners, small and middle owners, tenants-at-will, and landless workers. The Plan recognized the pattern of land occupancy and cultivation as a fundamental issue of national development.

The Second Five year plan stated: "the abortion of intermediaries and the protection given to tenants are intended to give the tiller of the soil his rightful place in the agrarian system and by reducing or eliminating the burden he has borne in the past, provide him with fuller incentives for increasing agricultural production. Similarly, to bring the tenant into direct relation with the State and to put an end to the tenant-landlord nexus are essential steps in the establishment of a stable rural economy". Complementary to these objectives were the policies of land ceilings, consolidation of holdings and encouragement of co-operative joint farming.

The central thesis behind the abolition of intermediaries was that ownership of land be clearly identified with management and operation of land. The owner himself should operate and manage the farm business.

Ceiling on land holdings were designed to offset the extremely uneven distribution of agricultural land. The policy implications of this measure were (i) to meet the land hunger of working cultivators, (ii) to reduce disparity in agricultural incomes, in ownership and in the use of land, and (iii) to increase employment opportunity in the rural sector. At the same time, consolidation of holdings was advocated to consolidate the scattered holdings of individual cultivators to form a single tract susceptible to more efficient management.

While ceiling on holdings and consolidation of plots were planned to increase the land base of the working cultivators, it was argued that reforms through structural changes could be secured only when the actual tillers of the soil were given a fair share of the fruits of their labour. This called for an overall change in the tenurial conditions of cultivators. Tenancy reforms were launched to confirm the rights of occupancy of tenants, secure their possession of tenanted land and also regulate rents on leased land.

But there existed a very large number of very small holdings. This group of minuscule holdings constituted one of the most difficult problems in agricultural reorganization. The possibility of co-operative farming as a means of overcoming the difficulties presented by tiny holdings was discussed. It was pointed out that if these smaller holdings were grouped into larger units and farmed co-operatively then the advantage of large-scale organization would become available. Larger financial resources for agricultural development could be provided and the volume of employment increased.

The rationale for co-operative farming grew out of an examination of the man-land ratio and the supposed economies of scale achievable on large-size units, even though there is little evidence to support the contention that greater per capita production will be forthcoming if holdings are pooled and cultivated jointly. Studies of farm management have indicated that the size of the holding and the yield under traditional agriculture are inversely correlated. The statistical basis of this generalization has been challenged and it is now accepted that it is difficult to generalize from aggregate data that have not been subjected to careful scrutiny. However, it appears that if adjustment is made for differences in soil fertility, and proper yield and income variables are chosen, then there will be a strong general tendency towards constant returns to scale in Indian agriculture. This, along with the natural reluctance of cultivators to give up their newly won rights to land, seriously hindered co-operative farming. The failure of co-operative farming as a policy was tacitly admitted in the Fourth Five Year Plan when no additional programmes were proposed.

The net effect of all these reforms was presumed to loosen the rigidly stratified rural society so that each cultivator in accordance with his capability could find an opportunity to advance. The owner was envisaged to become the manager as well as the operator of his holdings.

8.2.3 Impact of Structural Reorganization

Land policy in the first Five Year Plans was thus formulated without sufficient knowledge about the size and distribution of land holdings in the rural sector. A considerable volume of data was collected for the first time in the Eighth Round (1954) of the National Sample Survey (NSS) for size and distribution of land holdings. However, the draft report of the NSS Eighth Round was only submitted to the Union Government in January 1960, nearly six years later. It, there, did not serve the purpose of planners to assess the magnitude of the problem involved in structural reorganization.

Defects in policy planning became conspicuous in the implementation stage of the land reform programme. Legal, administrative and other factors became principal bottlenecks. In the process, the error of doing the right things too slowly became increasingly costly. Policymakers failed to take into account the importance of the time dimension for the success of these reforms. A go-slow programme of implementation failed to make effective impact upon many working cultivators.

Under the Indian Constitution, land reform is a state subject. Apart from the broad principles directly bearing on the distribution of land resources, tenancy relations are under the control of the several states. Consequently, while the main features of the reform legislation in different states are practically identical, there is a wide difference in the scope of the work actually undertaken. The result is that tenancy problems are concentrated in certain states and are not as important in other states.

As a result of a series of investigations and personal observations, it is generally conceded that the reforms are not complete. For example, while rents may be limited by law to one-fourth of the crop in a given state, this law is not enforced in many cases. Furthermore, land ownership can be divided among the members of a joint family so that each member can own his legal share of the land with the result that the total family holding is several times above the legal limit. The large number of evictions, many justified on the grounds of a reform provision which encouraged the right of land resumption for self-cultivation, and the so-called 'voluntary' surrender of land which were especially prevalent during the 1950s gives visible evidence that security of tenure is not an accepted fact of life in India.

Under the conditions prevailing before the introduction of the seed-fertilizer technology some observers have argued that the weaknesses in tenancy, rent control, etc., have not been important constraints on production. However, the problems of land tenancy and ownership have acquired special significance with the technological advances in agriculture. Land cultivated on tenancy or rented arrangements can enable the cultivator to enlarge the scale of his operations to economically justify mechanization and his own water supply. However, the increased productivity of the high-yielding varieties (HYVs) has also led to a trend of rising rents, or in the absence of income from this source, the reclaiming of land for owner cultivation. As a result, both the returns from, and the security of, rented and leased lands are apparently decreasing.

A cultivator who does not have security of tenure or who must pay a high proportion of output in rents is less likely to invest in land improvements, adopt HWs or use inputs up to the optimal economic amounts. Therefore, tenants are likely to suffer a relative decline in income compared to owners, as the modern technology becomes more widely spread.

In order to safeguard the interests of the tenants, the Chief Ministers' conference in July 1967 recommended the following measures:

1. Tenants in cultivating possession of land should not be disturbed and should be given complete security of tenancy by: (i) staying all evictions, (ii) suspending the right of resumption where such right has been given to landowners, and (iii) regulating voluntary surrenders in such a way that landowners do not get an advantage by persuading tenants to surrender their tenancy.
2. The rate of rent should be reduced to the level of one-fourth or one-fifth of the gross produce so that the tenant is in a position to improve his land.
3. Record of tenancy should be prepared as a special operation and maintained up-to-date.
4. Special attention should be given to ensure credit and other facilities to tenants and small holders for increasing agricultural production.

Since the 1967 Chief Ministers' Conference, many more meetings have followed each pledging faithful implementation of reform measures. But, as the 1978-83 Draft Five Year Plan (Government of India, 1978) observed, the will to implement the policy has been sadly lacking all along.

8.2.4 Emerging Perspectives and Policy Issues

It is against the background of the last five decades experience that the need to reformulate the land policy of India should be considered. Even persons emotionally attached with land reform programmes agree that the scope for improving implementation through legislative measures is now very limited. They point out, the socio-economic and political environment in which these programmes were introduced have changed so dramatically, that it would be almost impossible to carry out the reforms.

Dramatic changes have also taken place in agriculture. A fundamental and dynamic process of change with far-reaching consequences was introduced in Indian agriculture in 1965. This significant development was the introduction of modern scientific inputs of high-yielding seed varieties, controlled irrigation, chemical fertilizers, plant protection and mechanized power in tested management 'packages'.

The deeper significance of a technologically dynamic agriculture is that it provides opportunity to move from subsistence to viable economic farming and creates new

Potential for accelerated economic growth well beyond the agricultural sector. To exploit fully the potential created by this new environment in Indian agriculture, Dandekar argued that the structure of production should be changed (Dandekar, 1994).

The strength of Dandekar's argument also contains its weakness. It fails to recognize fully the ground realities of the environment in which the proposed policy changes have to seek acceptance and a fair chance for implementation. The crisis that surfaced in the early 1990s from the acute domestic and international economic pressure and threatened to destroy the credibility of the country in international financial markets provided a necessary environment for initiating economic reforms. But, economic compulsion alone is not enough. Social and political compulsions are also important conditioning factors in making the policy environment receptive for change. Unfortunately, those have not yet become conducive to make Dandekar's policy prescription the first item on the agenda of future agricultural policy.

Modern technology, be it for agriculture or for industry, is in general labour saving and capital intensive. Indeed, available empirical evidence shows that the employment elasticity of output in agriculture has fallen sharply in the post-new technology period (Bhalla, 1987; Bhalla et al., 1991; Ray, 1992). Consequently, any unrestrained opportunity to grow through modernization of agriculture can only be at the cost of aggravating further the problem of unemployment. Dandekar's policy prescription is a deliberate attempt to create this situation for promoting growth in agriculture. He was in favour of building up pressure so that those who are not in a position to leave behind any surplus value for ploughing back in agriculture are forced to leave agriculture. But, where would they go? Obviously, not to industry, as it is also supposed to grow with labour saving modern technology. To resolve the dilemma, Dandekar made two suggestions: (i) to implement a minimum support price for labour, that is, "a minimum wage which, if the capitalist farmer would not pay, the government shall pay and employ the labor on worthwhile work"; and (ii) to the extent possible, employ the unemployed "in the creation of the social and physical infrastructure necessary for agricultural development rather in the operation of cultivation". These are laudable suggestions but, since the governments in India are presently going through acute financial difficulties, it is very difficult to implement them unless efforts are made to open up new avenues for mobilization of resources.

It would be of interest to visualize the situation if the existing ceiling and tenancy laws were repealed. As agricultural income is not taxed, there would virtually be a beeline to make investments in land. Not only enterprising farmers would start enlarging their holdings by buying or leasing-in land; businessmen and moneyed people from other walks of life would also enter agriculture to make smashing profits. A convenient route to convert black money into white would thus be firmly established. Luxury farm houses would come up to which rich people would retreat to spend holidays and breathe fresh air. Land prices would soar and speculators would have a field day. The problem of uneconomic holdings would no longer remain. Millions of small and marginal farmers would be squeezed out from their small and tiny plots. However, in the absence of employment opportunities elsewhere, they would remain in agriculture and work in the estates of big landowners as tenants or wage laborers. In short, rural India would acquire a modern look closely resembling the U.S. and other developed countries, though it would continue to carry a huge labour force desperately struggling to out living directly or indirectly from agriculture.

The social and political costs of giving rural India such a modern look at this juncture need to be examined, especially when the incidence of poverty has still remained very high. Repealing the existing ceiling and tenancy laws would no doubt provide opportunities to enterprising farmers and moneyed people to grow; modernization of agriculture might progress rapidly; the trickle down effect too might provide a minimum level of subsistence to all to survive. But the distribution of income would become more skewed, the gap between the rich and the poor would further widen, and the social friction would sharply intensify.

Moreover, the intense love of the intellectuals to study the poverty in India has not only emboldened them to speak with moral overtones but it has also in the process encouraged the politicians to make increasingly tall promises. The politics of competitive populism has now spread its tentacles to all political panies. It has made hypocrisy an accepted way of political life in India. Therefore, if the lack of political will has made implementation of land reforms legislation difficult, the politics of competitive populism, at least for some time to come, would also not allow withdrawal of these legislations.

It thus appears that the present policy environment is unlikely to permit drastic changes in the existing land reform legislations. Several measures need to be taken before considering such changes. An appropriate first step in this direction would be the imposition of agricultural income tax and agricultural holding tax. These measures fit well in the newly advocated philosophy for market-friendly approach. They can also help to mobilize the much needed resources for employing the unemployed in the creation of social and physical infrastructure for agricultural development. Moreover, a progressive agricultural holding tax may act as a deterrent against formation of large holdings in the future - while at the same time, it may encourage greater efficiency of farmers who insist on retaining their large holdings.

At the same time, several measures should be taken to discourage farming on uneconomic holdings. Innovative schemes, such as the free boring of wells provided in eastern Uttar Pradesh, should be used to encourage small and marginal farmers to consolidate their holdings. However, consolidation of holdings cannot considerably improve the areal extent of uneconomic holdings. Therefore, a floor limit should be imposed on the size of holding. Simultaneously, small and marginal farmers should be allowed to lease-in or lease-out land with adequate safeguards, so that they could adjust the sizes of their holdings and maintain them above the floor levels.

A plea is being made to relax the ceiling laws in order to encourage corporate sector to enter agriculture for commercial production of high-value and processed agricultural products, and earn thereby valuable foreign exchange for the country. Rather than relaxing the existing ceiling laws it would be better to consider the command area approach followed by the sugar industry and the area- based contract farming approach adopted by some corporate sector farms. Both provide an opportunity to earn foreign exchange without any direct involvement of the corporate sector in the production of required agricultural raw materials. The corporate sector should be welcomed as partners in the task for social and economic upliftment of rural India. They should set up agro-processing units in the rural areas and help in diversifying agriculture, encourage contract farming especially among small and marginal farmers by extending extension and marketing facilities, and also develop the required physical infrastructure support in their areas of operation. But their direct involvement in agricultural production should be firmly resisted till the workforce dependent on agriculture declines significantly to a low level.

The future agricultural policy should be worked out only after fully recognizing the social, political and cultural milieu in which it has to operate. Increasingly sophisticated technologies are now available which can dramatically push up the growth rate of agriculture. However, not all of them are acceptable and desirable in the present Indian situation.

8.3 CRITICAL APPRAISAL OF FOOD SECURITY POLICY

1. Limited Benefit to Poor from PDS. Many empirical studies have shown that the rural poor have not benefited much from the PDS as their dependence on the open market has been much higher than on the PDS for most of the commodities. In a similar way, urban poor have also dependent to substantial extent on the open market to meet their consumption requirements. In a study on the effectiveness of PDS in reaching the poor, Kirit S. Parikh says, "The cost effectiveness of reaching the poorest 20 per cent of households through PDS cereals is very small. For every rupee spent, less than 22 paise reach the poor in all States.

Excepting in Goa, Daman and Diu where 28 paise reach the poor. This is not to suggest that PDS does not benefit the poor at all, but only to emphasise that this support is provided at high cost." In this context, it would also be pertinent to point out that ration cards are issued only to those households who have proper registered residential addresses. This means that a large number of poor who are homeless and others without proper residential addresses (for example, migrant labourers) are automatically left out of the food security system.

Using 1986-87 household level data. Radhakrishna. K. Subbarao. S. Indrakant and C. Ravi have estimated the extent of income transfer through PDS to the poor, and the consequent reduction in poverty in terms of percentage and severity. They concluded that there were negligible welfare gains due to PDS. The per capita income gain to the poor from all consumer subsidies was no more than Rs. 2.01 per month, or 2.7 per cent of their per capita expenditure, in rural areas. The overall transfer gains were very meagre. Not only this, the transfers were regressive, i.e., non-poor cornered greater benefits. With the exception of Kerala and Andhra

Pradesh. PDS also had a negligible effect on poverty and nutritional status. Considering the country as a whole, there has been a reduction of barely 2 percentage points in the poverty ratio due to combined incidence (income gains) of food and non-food consumer subsidies.[14]

In a study published in 2002, R. Radha Krishna made the following important observations as far as access of the poor to PDS food is concerned : (i) many empirical studies have shown severe biases in the inter-regional distributions of the PDS supplies – States with high incidence of poverty such as Bihar, Orissa and Madhya Pradesh received a lower share; and (ii) the PDS is not functioning at all in the States with high concentration of the poor, due to a lack of the desired initiative on the part of the State governments. The prospects of these States in providing safety nets to the poor on the basis of spending from their own resources would seem to be bleak since they are facing a severe fiscal crunch. Even the TPDS (Targeted Public Distribution System) introduced in 1997, has not made a significant impact on the access of food since delivery systems in the poorer States are weak.

2. Regional Disparities in PDS Benefits. There are considerable regional disparties in the distribution of PDS benefits. For example, in 1995, the four Southern States of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu accounted for almost one-half (48.7 per cent) of total PDS off take of foodgrains in the country while their share in all India population below the poverty line in 1993-94 was just 18.4 per cent. As against this, the four Northern States of Bihar. Madhya Pradesh, Rajasthan and Uttar Pradesh (or BIMARU States) having as much as 47.6 per cent of the all India-population below the poverty line in 1993-94 accounted for just 10.4 per cent of all India off take foodgrains from PDS in 1995. A more accurate picture of differences across States and regions emerges, when we examine the distribution of per capita quantities, that is, after adjusting for population size. A recent study has shown that in poor States like Bihar. Madhya Pradesh, Uttar Pradesh and Rajasthan with a high incidence of poverty the per capita monthly purchases of cereals from PDS was lower than half a kg. while it was 4.6 kg in Kerala 3.3 kg in Tamil Nadu and 2.3 kg in Andhra Pradesh which have a low incidence of malnutrtion.

3. The Question of Urban Bias. A number of economists have pointed out that PDS remained limited mostly to urban areas for a considerable period of planning while the coverage of rural areas was very insufficient. In fact, in an article published in 1984. P.S. George estimated that the off take in the urban areas was about 85 per cent of the total off take from the public distribution system.[17] However, using data available from the 42nd round of NSS, S. Mahendra Dev and M.H. Suryanarayana indicated that for most of the States, with the exception of West Bengal, the urban bias may not be present. In fact, based on certain criteria they argued that the PDS is rural biased at the all-India level for rice and coarse cereals.

Although the above results seem mutually contradictory the fact of the matter is that there was indeed an urban bias in PDS in the 1960s and 1970s as its coverage was confined to major cities and a few States. However, with the expansion of PDS in rural areas in later period, this bias has been corrected. Nevertheless, the mere expansion of PDS in rural areas does not mean that it is 'effective' in delivering the goods. In fact, a report released by the Government of India in 1991 pointed out that while more than 75 per cent of the fair price shops are in rural areas. 'the level of their effectiveness in terms of actual supply of essential commodities, particularly in the rural, backward, remote and inaccessible areas, raises questions as to the meaningfulness of their existence."

4. The Burden of Food Subsidy. PDS is highly subsidised in India and this has put a severe fiscal burden on the government. Subsidy on PDS arises from the difference between the issue price and the economic cost of the FCI. From Rs. 662 crore in 1980-81, food subsidy rose to Rs. 2.850 crore in 1991-92 and further to Rs. 31.546 crore in 2007-08 (in 2008-09, it is expected to have touched the level of Rs. 50,000 crore – 53 per cent more than the budgetary provision of Rs. 32,667 crore for this year). While the economic cost of FCI is going up considerably due to the regular hikes in procurement prices, rising costs of storage and distribution etc, the issue prices are deliberately kept low by the government in order to supply foodgrains to the masses at low prices. In 1997, the government adopted the Targeted PDS in which issue prices for BPL families were fixed at 50 per cent of the economic cost of FCI while the issue prices for APL families were fixed equal to the economic cost. The drastic reduction in the issue prices for BPL families raised the subsidy burden considerably. On the other hand, fixation of issue prices at a level equal to the economic cost for APL families created a situation where APL price under PDS rose higher than the market price reducing the incentive for APL families to purchase from the PDS. As a result, the stocks of foodgrains with the FCI swelled. This created a problem of excess food stocks. For instance while the stipulated buffer stock norm in July 2002 was 24.3 million tonnes, the actual stock stood at 63.0 million tonnes with the result 'excess stocks' were as high as 38.7 million tonnes.

5. Inefficiencies in the Operations of FCI. The Bureau of Industrial Costs and Prices (BICP) of the Government of India and some researchers have pointed out a number of inefficiencies in the operations of the Food Corporation of India. *The economic cost of FCI foodgrains operations* has been rising on account of increase in procurement prices and 'other costs' (which include procurement incidentals, distribution cost and carrying cost). For example, the economic cost of rice procurement went up from Rs. 497 per quintal in 1991-92 to Rs. 1.412 per quintal in 2006-07 – a rise of 184 per cent. During the same period, the economic cost of wheat procurement rose from Rs. 391 per quintal to Rs.1,214 per quintal—a rise of 210 per cent. Critics have pointed out that the way out of this malaise is the entrust the task of procurement and distribution of foodgrains to private agents in place of the FCI as they are likely to operate more efficiently.

However, as correclty pointed out by V.M. Rao, the food security system as has evolved in India over the past four decades can be operated only by a FCI-like organisation. The surpluses of wheat and rice (the crops to which the food security system in India is limited) are concentrated only in a few States and thus the procurement operations are also concentrated in these States. Given the minimum support prices which remain fixed for a crop year, the farmers take the first opportunity to deliver their produce when harvesting starts except when a substantial rise in the price of grain is expected in the later part of the season. The quantities of grains thus mobilised have to be allocated to areas all over for country maintaining a steady flow of monthly installments of grains supplied at a subsidised price. Obviously, this has to be a command operations which private trade channels working for profit are not likely to find sufficiently attractive to undertake. The inefficiencies in the operations of FCI are due to its 'highly centralised and bureaucratic mode of operation.' To rectify this, V.M. Rao advocates the 'toning up' of the personnel and working of FCI on the one hand, and reorganising the food security system on a decentralised basis on the other hand.

6. PDS Results in Price Increases. Some economists have pointed out that the operations of the PDS have, in fact, resulted in an all-round price increase. This is due to the reason that large procurement of foodgrains every year by the government actually reduces the net quantities available in the open market. Taking advantage of the low supplies in the market, the traders have indulged in speculation raising the foodgrains prices in the open market to unusually high levels. This dual market system – the PDS and the open market – operates to the disadvantge of the poor. As noted earlier, the PDS meets only a fraction of the requirements of the poor. Therefore they are compelled to make purchases in the open market where prices are high. Thus PDS not only does not meet significant requirements of the poor but also operates against their interest by pushing up the open market prices. People not serviced by the PDS at all like casual labourers on daily wages. migrant workers, and those without proper residential addresses are doubly disadvantaged because they are not only not covered by the PDS but also have to pay higher prices for their entire purchases in the open market.

7. Leakages from PDS. Another criticism of PDS relates to the problem of leakages from the system in the form of losses in the transport and storage and diversion to the open market. The major part of the leakage is due to diversion of foodgrains to the open market because of the widespread prevalence of corrupt practices. Instead of selling ration at subsidised rates, shopkeepers sell them in the open market at higher prices, pocketing the difference. According to a study conducted by Tata Consultancy Services, the all-India diversion of PDS foodgrains is 31 per cent for rice and 26 per cent for wheat. Sometimes shopkeepers make bogus entries in the ration cards. S. Mahendra Dev gives the example of a village in Daha taluka in Maharashtra where the tribals had not even tasted sugar for more than a year. Yet, the ration card of one undernourished tribal family had an entry for June. 1995 stating that it has bought 26 kgs of sugar on a single day. The situation is similar in other Dahanu villages. The delivery systems in rural areas are very poor. Even if that fair price shop exists, foodgrains are not available in many places.

8.4 SUMMARY

In nutshell, future of agricultural policy should be worked out only after fully recognizing the social, political and cultural milieu in which it has to operate. Increasingly sophisticated technologies are now available which can dramatically push up the growth rate of agriculture. However, not all of them are acceptable and desirable in the present Indian situation.

8.5 QUESTIONS

Q.1 Write a short note on Land reforms in India.

Q.2 Does food security policy of India truly helped in achieving equal accessibility to nutrition ?

Q.3 Describe various objectives and impact of structural reorganization.

Q.4 What are emerging perspectives and policy issues in land policy?

M.A. ECONOMICS **LESSON NO. 9**

COURSE NO. ECO 204 **SEMESTER-II** **UNIT-II**

WATER RESOURCE DEVELOPMENT STRATEGY FOR ACCELERATING AGRICULTURAL PRODUCTION IN INDIA

Structure

9.1 OBJECTIVE

After going through this lesson, you will be able to :

- Understand the crucial role of water management.
- Favourable and adverse effects of river valley project.

• Explain alternative technologies and approaches for water managment.

9.2 INTRODUCTION

Agricultural production has made rapid strides since 1966-67. Production of foodgrains, for example, increased from 74.23 million tons in 1966-67 to 203.04 million tons in 1998-99. Production of non-food items has also shown an increasing tendency. At the same time the growth of population and rise in per capita income has resulted in increasing demand for foodgrains and other agricultural products. This demand would continue to rise in future also. There is, therefore, need for raising agricultural production as much in the coming decades as was the case in the past. How to bring this about is the real challenge that we face today specially in the context of an increasingly competitive and open economy.

9.2.1 CRUCIAL ROLE OT WATER MANAGEMENT

Past experience indicates that the focus of efforts has to be in the direction of increasing per hectare yield. Most of the increase in foodgrains production since 1966-67 has been due to increase in per hectare yield rather than increases in area under crop. Area under foodgrains increased only marginally from 115.30 million hectares in 1966-67 to 125.63 million hectares in 1998-99 while yield per hectare increased from 644 kg to 1620 kg during the same period. Agricultural yield is essentially a function of interaction between resource endowment and technology. Raising production of foodgrains and other agricultural products, therefore, requires: (a) improving the resource endowment to meet the requirements of an improved technology, or (b) developing an improved technology which is in harmony with a given resource base in terms of soil, water, sunshine, etc. or (c) a combination of the two in varying proportions. The various policy measures whether in operation or contemplation produce an impact through the mechanisms described above.

The growth in agricultural production that has taken place in our country during the past three decades has been achieved mainly through the first mechanism, i.e by augmenting the resource base to meet the requirements of an internationally developed recommended technology.

There are three essential ingredients of the recommended technology.

(1) Seed,

(2) fertilizer and

(3) water

While seed and fertilizer can be dispatched to any area, the same is not true of water which is also the most important factor affecting agricultural production. Unlike other resources, water is location specific and not ubiquitous. In a monsoon dominated agriculture characterized by uncertainty of both quantum, and timeliness of rainfall, water management emerges as the most important factor. It is, therefore, not surprising that about two-thirds of the increase in foodgrains production from 51 m.t in 1950-51 to 203 m.t in 1998-99 came from irrigated area and that the areas in India which have grown faster in terms of agriculture production like Punjab, Haryana, western U.P., part of Andhra Pradesh and Tamil Nadu are those areas which have assured supply of water through a judicial combination or both surface and ground water resources, while areas having low agricultural productivity like Bihar, Orissa, Assam, Madhya Pradesh, etc. are those where water management is quite poor. It may also be noted that the coverage of foodgrain area irrigation increased from 22.2 per cent in 1966-67 to 40% percent in 1997-98.

At the same time, we are aware that the full potential of the recommended technology for resource rich areas like Punjab, etc has already been exploited. The yield Levels in such areas are reported to have reached saturation points for quite some time and there are no signs of further technological breakthrough. There is no scope for raising production in their areas. Judicious policies related to input and output prices, agricultural credit delivery system, marketing outlets, etc. would obviously help raise production. But the additional would not be spectacular without a fresh technological breakthrough which is nowhere in sight. Hence, there is need to explore the possibility of bringing additional area under irrigation as well as to search for alternative technologies and approaches.

9.2.2 SCOPE FOR AUGMENTING IRRIGATION THROUGH LARGE RIVER VALLEY PROJECTS

A significant augmentation of water resources can be done through inter-basin transfer of water on which work is already being done by the National Water Development

Agency of the Ministry of Water Resources. But not much real progress has been achieved during the past decade. Prospects for the immediate or even distant future are also dim specially as this involves inter-state transfer of water for which the atmosphere is not at all congenial in our country. The prospects are not very bright with regard to the more traditional basin-wise utilisation of water also. Most of the major surface irrigation projects whether under investigation or execution are bogged down in controversies for environmental and other reasons. Governmental investment in this sector has also been slackening during recent years. Inadequate funding by the State has been a major reason. Environmental concern has been another. Irrigation authorities blame the environmentalists who, in turn, blame the former while the public suffers.

9.2.3 METHODOLOGICAL DEFICIENCIES

Project specific discussion especially in developing countries becomes unnecessarily controversial because of inadequacy of relevant data and information thereby giving sufficient scope for conjectures and unfounded allegations. For example, a comprehensive impact evaluation of major river valley projects in India is difficult to obtain since no such evaluation has ever been commissioned by the authorities. This point was made very ably by Ashish Kothari, a noted anti-dam expert when he made his submission before the World Commission on Dams.

At the same time, it needs also to be said that the preparation of a balance sheet becomes quite difficult because of methodological inadequacies. A typical river valley project, being large in size, affects a large number of environmental components having manifold dimensions of effects, some positive and some negative. How to deal with them is a challenging task. Unless these are reduced to one or at most a few manageable entities, it would not be easy to judge whether the project as a whole is having a favourable or unfavourable impact on the economy and the environment. This can be done only through a methodology which is capable of comparing one impact against another and converting them to some common base for aggregation.

There remains considerable scope for free play of subjective judgments with a focus on only a few components of the environment like, for example, impact on agricultural productivity for the proponents of dam and on loss of forests and biodiversity and inadequate relief and rehabilitation for the opponents of dam. A crucial problem in the exercise relates to valuation of intangibles, the expertise on which is quite limited.

The types of effects usually produced by large scale river valley project are well documented by now and fairly understand by expert these are, positive as well as negative. Positive and negative effects can be direct or indirect, short-term or long-term, tangible or intangible. These effects are discussed and listed below. The list is illustrative rather than exhaustive.

9.2.4 Favourable Effects

Most of the river valley projects undertaken in the past have brought substantial benefits to the nation.

1. Irrigation provided to vast tracts of land has boosted agricultural productivity and reduced adverse impacts of drought. The new agricultural technology associated with the green revolution is dependent crucially on assured supply of water to crops. Irrigation from river valley projects has been a major source of this assured supply. One wonders whether it would have been possible to feed our growing population from domestic supply if there had been no river valley projects! What would have been the social and political implications if we had continued to depend on outside world for food which is a basic need of the people. Per hectare productivity in irrigated agriculture is almost twice or more than that in unirrigated agriculture. This coupled with increase in cropping intensity results in higher demand and higher wages for agricultural labour. Consequently the incidence of rural poverty has also declined in areas under the command of river valley projects like Punjab, Haryana, and western U.P. while areas not so blessed like Bihar, Orissa and Assam and drought stricken parts of several other states have continued to reel under poverty. Irrigation is a matter of logical necessity for a prosperous agrarian economy in a monsoon dominated climatic condition in India characterized by uncertainty as well as seasonability of rainfall. This is particularly true of areas having insufficient rains and such areas remain quite substantial.

2. Irrigation benefits alone would be enough to justify big river valley projects provided they are otherwise economically viable, socially acceptable and environmentally sound. Accrual of other benefits increases their usefulness still

further. Hydel power, for example, has been a cheap and relatively cleaner source of power specially useful for meeting the peak demand for power. It also subserves the objective of domestic self-reliance.

3. Flood moderation that results from projects having reservoir, whether with or without flood cushion, is another significant benefit.

4. Flood moderation has favourable distributional applications also. Unlike irrigation and hydro-electricity, a large proportion of flood moderation beneficiaries belong generally to the weaker sections in both rural and urban areas. This is not only because it is the Poorer people who constitute the majority in population but also because it is they who are usually forced to live in low lying and vulnerable areas.

The various advantages can be briefly listed as below:

1. Increase in agricultural output through a combined effect of increase in area under irrigation, changes in cropping Pattern, increase in cropping intensity and increase in per hectare crop yield all of which result from a river valley project. This is the most important positive impact which has the added advantage of being quantified.

2. Increase in farmers' income largely due to the above but also due to growth of secondary and tertiary activities like food processing industries and trade and commerce which might crop up depending upon situations.

3. Reducing the impact of drought thereby reducing seasonal as well as annual fluctuations in output and income which results in stabilizing agricultural economy.

4. Social changes like higher literacy, greater urban contact, a progressive outlook, etc., resulting from higher agricultural output, higher income and improved technology.

5. Scenic beauty around reservoir resulting in greater inflow of tourists.

6. Establishment of townships near dam sites.

7. Plantation of trees near about the dam and canal and elsewhere on account compensatory afforestation.

8. Availability of clean water for drinking and other domestic purpose
9. Availability of water for industrial purposes.
10. Providing habitat for animal and birds due to increased availability of water in hither to water starved areas.
11. Provision of hydel power resulting in better quality of life and increased supply of power to agriculture, industry and other activities thereby higher income and levels of living for the public.
12. Additional scope for fishery if any.
13. Moderation of flood, if any.
14. Provision for navigation, if any.
15. Effect on climate.

9.2.5 ADVERSE EFFECTS

At the same time we should not shut our eyes to a number of adverse impacts of the river valley projects in our country. Prominent among these include deforestation and loss of bio-diversity and displacement of project affected people on the dam site and emergence of water logging and soil salinity in the canal irrigated areas. Large dams do result in deforestation and loss of bio-diversity including disappearance of rare species. This is unavoidable in areas to be submerged under water.

There is now a greater realization of the suffering of people displaced from the submerged area of reservoirs. This has led to adoption of better relief and rehabilitation packages. But the very fact that a significant proportion of affected people are still agitating and reluctant to leave their habitat seems to indicate that a lot more needs to be done.

Moreover, there are some who have ideological aversion to large scale river valley projects on the ground that these have adverse environmental and social impacts which cannot be taken care of under any circumstances.

A comprehensive list of the adverse effects is given below:

1. Displacement of people.
2. Loss of bio-diversity including disappearance of rare species of plants and animals.
3. Effects on monuments.
4. Deforestation.
5. Soil erosion and reservoir sedimentation.
6. Water Pollution.
7. Seismic impacts.
8. Adverse effects of irrigation like water logging and soil salinity.
9. Adverse effects on health like increased incidence of malaria and other water borne diseases in some cases.
10. Reduction of fisheries.
11. Land loss and change in land use.

9.2.6 Need for Restructuring of Administrative Machinery

Notwithstanding their intrinsic advantages, large size river valley projects in India have been acquiring a poor image largely due to the faulty manner in which projects have been planned and executed in the past. In particular, scant attention, was paid to social and environmental aspects. Problems related to availability of reliable data and information have been highlighted and the need for more careful planning and implementation along with creation of multi-disciplinary teams have been indicated several times in past even in reports of government committees and commissions. But the administrative agencies mainly at the state level and to some extent even at the central level have ignored them with impunity. A stage has reached where there is a growing perception in public mind that projects are taken up mainly to serve the vested interests of the implementing agencies. Work on projects starts even without obtaining environment clearances. Following are the measures to make project authorities friendlier towards the environmental aspects.

1. The reform measures must focus on officers' accountability including some penal provision for non-compliance. If river valley projects are undergoing through a cloud, it is largely due to the inflexible approach of the bureaucracy in charge of such projects. Restructuring of concerned departments along with changes in staffing pattern and planning and implementation procedures should be done.
2. The need for a multidisciplinary planning team with an important role being assigned to economists and other social scientists. This would amount to an end to the monopoly of irrigation engineers in planning and execution of irrigation projects in India.
3. Second, there will be a rise in the cost of projects because of which some of the projects on the margin may not be sanctioned on the basis of the prescribed benefit-cost criterion. This would result in a smaller number of projects.
4. Meanwhile funds for the expeditious completion of ongoing projects be made available on a priority basis.

9.2.7 ALTERNATIVE TECHNOLOGIES AND APPROACHES

1) **Ground Water Development:** Another possibility is to exploit the immense potential for ground water development that exists in many parts of the country specially those having low agricultural productivity like Bihar and other parts of eastern India. But such a possibility is dependent on increased availability of electricity which again is quite scarce. Massive investment would be needed not only in power generation but also in its transmission and distribution, apart from revamping the institutional set up of the power sector. One strategy in this respect is to promote the use of alternate and renewable sources of energy for irrigation. Economically viable technologies based on alternate and renewable sources of energy for irrigation are reality available.

2) **Watershed Development and Rain Water Harvesting:** Water augmentation is also possible through watershed development specially in water scarce areas where agricultural productivity is extremely low. What is needed to work out area-wise potential and take appropriate steps for speedy utilisation of the potential wherever considered economically viable. For this, higher investment

and more efficient organization would be called for. Rain water harvesting is another alternative which has been ignored by the authorities for quite long. It was much prevalent in areas of scanty rainfall as in Rajasthan in the pre-British period. Interest in this is now getting revised. It deserves to be pushed wherever it has some scope. Successful implementation of this approach would ease the Pressure on big projects and help in overall augmentation of water resources.

3) **Water Saving Devices:** Advantage can also be taken of water saving devices like drip irrigation and of improved water management system like water users participation in irrigation management. The first is an innovation in technology while the second is an innovation in management and amounts to revolutionary change in the prevailing system of irrigation administration. Both of them have already been introduced in our country but their progress has been extremely tardy. Apart from large scale training and extension, additional funds would also be needed for investment in drip irrigation by farmers for which our banking system has to come forward in a large measure. As regards water users' participation in irrigation management, really bold steps would be needed to break the century old stranglehold of bureaucracy over irrigation management. For this purpose, State irrigation acts have to be amended and large scale experiments on water users' participation in different parts of the country be promoted as a deliberate policy measure. Notwithstanding the scarcity of water for irrigation, there is evidence that considerable water from canals goes waste especially in non-warabandi areas mainly because water that is made available from public canals is underpriced. Low irrigation rates have persisted over the years. This must be ended to avoid wastage of water. But an upward revision of irrigation rates by a substantial margin can become politically feasible only if a concerted action is taken simultaneously by a number of state governments. No state government can initiate such a bold step in isolation. The Government of India should, therefore, take an initiative in this direction for evolving a consensus among the states. Highest priority be given to different possibilities for augmenting supply of water for irrigation so as to have salutary effect on agriculture production. But, as is well known, this by itself would not be sufficient. It would need to be supplemented by adequate availability of

complementary inputs of improved seed and fertilizer, pest management, and a regime of incentive prices and timely supply of credit, etc. The strategy would, of course, be multipronged with a focus on provision of assured water supply both in terms of time and quantity.

4) **Management of Flood and Drainage Congestion:** With respect to water resource management, expansion of irrigation is not the only issue. For a large part of the country extending from eastern U.P. to Bihar, West Bengal, Orissa and Assam, i.e. the so-called eastern states, an equally important issue relates to management of flood and drainage congestion. The occurrence of flood not only results in short-term damages to crops which is quite well publicised, but also reduces farmers' incentive to invest in agricultural development which aspect has received very little attention in professional literature. Fertilizer used in the fields gets washed away when flood comes. This reduces the incentive to use fertilizers even in those years which turn out to be free from floods since the occurrence of flood is highly uncertain. Floods also damage roads and communication lines. Hence, major infrastructural facilities remain in a poor state in flood prone areas. Recurring crop damages induce a psychology of helplessness which kills initiative and enterprise. Apart from flood, there is the problem of drainage congestion which persists for a longer time and can be found even in flood free years. Very little investment has been made in reduction of drainage congestion even though it is highly beneficial. Little research has been conducted by our agricultural scientists to evolve flood resistant crop varieties. What is even worse, the new varieties of crops evolved and popularized in the wake of the Green Revolution have been found to be less resistant to flood and drainage congestion. At the same time, the traditional varieties which used to be more resistant to flood have gone out of use. Little attention has also been paid to evolving a cropping pattern appropriate for areas suffering from flood and drainage congestion. Efforts have to be made to devise long-term measures for moderation of floods.

5) **Provision of Adequate Funding:** Most of the options identified earlier would require investment for which funds would be needed. Given the unwillingness of the private sector to invest in large scale irrigation, flood control and drainage

projects, as well as in taking up technology research, bulk of the fund has to come from governmental source and that too from government of India since the flood prone and drought prone state where most of the further action is needed have a very generous in allocation funds for the agricultural sector. Agriculture has been neglected in the Union budgets of the last few years because of which there has been a very slow growth of public investment in this sector. In addition, the manner in which plan funds are allocated to states by the Planning Commission, i.e. through the Gadgil formula does not provide enough funds to the backward states having potential for future agriculture development. Most of the schemes of the Ministry of agriculture also require matching contribute from the stage governments. The poorer states find it extremely difficult to do so because of the server recourse constraint from which they suffer. As a result, they are not in a position to take much advantage of them. For example during the 4 year period from 1992-93 to 1995-96, Assam could claim only 0.74 per cent, Bihar 1.29 per cent, west Bengal 2.22 per cent and Orissa 5.17 per cent from all the central and Centrally Sponsored Schemes of the Ministry of Agriculture. There is clearly a strong case for a review of the pattern of financial assistance provided to states by the Centre. Following a uniform pattern for all the non-special category states despite the very wide diversity in their socio-economic condition is highly inequitous and not in the best interests of the country. A thorough reordering of the scheme of financial assistance from Centre to states on the one land and increased allotment for agriculture including water resources on the other is called for if agricultural productivity has to be raised substantially in near future.

9.2.8 SUMMARY

Accelerating growth of agricultural production in the coming decade would require increasing emphasis on long-term measures calculated to strengthen the resource base and improve the technology. A multipronged strategy would be needed with a focus on augmentation of water resources and evolution of improved varieties of seeds for rain fed as well as flood prone areas. These may take time. For the immediate future the most promising approaches are through (i) speedy completion of on-going irrigation projects while taking care of their social and environment impacts also, (ii) exploitation of ground water, (iii) watershed development and rain water harvesting, (iv) water users' participation in irrigation management, and (v) removal of drainage congestion. These, therefore, need to be taken up on a sizably expanded scale. Effective pursuit of these as well as long-term measures would require considerable restructuring of prevailing policies as well as institutions. At the same time sizeable stepping up of public funding for agriculture development would also be needed.

9.2.9 Questions

Q.1 Discuss crucial role of water management.

Q.2 Write favourable and adverse effects of river valley projects.

Q.3 Describe alternative technologies and approaches for water management.

Q.4 Is there any need for restructuring of administrative machinery?

REFERNCE / SUGGESTED READING :

- Dandekar, V. M. (1994). The Indian Economy : 1947-92, Volume 1, Agriculture, Sage Publications India Pvt. Ltd., New Delhi.

INDUSTRIAL GROWTH IN THE 80'S AND GOVERNMENT POLICY TOWARDS PUBLIC SECTOR SINCE 1991, TERM OF TRADE BETWEEN AGRICULTURE AND INDUSTRY

Structure

10.1 OBJECTIVE

After going through this lesson, you will be able to :

- Understand Industrial growth in the 80s
- Understand Government policy towards public sector since 1991
- Explain terms of trade between agriculture and industry

10.2 INTRODUCTION

Due to slow industrial growth during 1980's, new economic reforms have been initiated in 1991. The new Industrial Policy announced by government in July 1991 with four measurement of reform such as reduction in number of industries reserved for public sector from 17 to 8 encourage wider participation of general public and workers in the ownership of Public sector enterprises, policy towards sick Public sector, and improvement of performance through an MOU.

10.3 INDUSTRIAL GROWTH IN THE 80S

There is no doubt that in the Eighties, industrial production has shown a strong increase. The index of industrial production with the base 1980-81=1.00 has shown a compound annual rate of growth between 1980-81 and 1988-89 of 7.7 per cent. During this period, while mining grew at an annual rate of nine per cent and electricity at 8.9 per cent, manufacturing grew at 7.3 per cent (Table 10.1). In the more recent period between 1984-85 and 1988-89, the overall Index of Industrial Production grew at an annual rate of 8.5 per cent and the manufacturing sector at nine per cent, though there has been a marked deceleration in the rate of growth in the current year. The performance in the Eighties stands in striking contrast to the performance in the Seventies when the overall industrial production grew only 4-2 per cent. Even in the period 1974-79, the growth rate was only 6.2 per cent.

The infrastructure industries comprising electricity, coal, saleable steel, crude petroleum, petroleum refinery products and cement, accounting for roughly 29 per cent of the total weight of the industrial production, record-led a compound annual growth rate of 8.6 per cent (Table 10.2). This has in fact facilitated industrial expansion. This overall growth should not, however, cloud certain regional imbalances particularly with respect to electricity. Much of the improvement in the performance of the infrastructure industries has been due to improved operational efficiency than to significant additions to investments. A break-up of industrial production at two-digit level shows that during the period 1980-81 to 1988-89, manufacture of electric machinery which includes electronics showed an annual growth rate of 17 per cent followed by manufacture of chemical and chemical products which grew at 11.2 per cent per annum (Table 10.3). The use-based classification of Index of Industrial Production throws more light on the pattern of industrial growth. During the period 1980-81 to 1988-89, basic goods comprising coal, steel and electricity grew at an annual rate of 8.3 per cent, capital goods industries at 9.5 per cent and intermediate goods industries at 6.5 per cent (Table

10.4). It is interesting to note that during a period of liberalized imports of capital goods, capital goods industries have shown a strong increase. They grew at 9.5 per cent per annum during the entire period of 1980-81 to 1988-89 and at 12.9 per cent during the period I984-85 to 1988-89. The consumer goods industries, as a whole, rose by 6.5 per cent per annum but within consumer goods sector; while consumer durables rose by 15.5 per cent per annum, non-durable goods increased by 5.0 per cent per annum.

Table 10.1

Compound Annual Growth Rates : Indices of Industrial Production

(Per cent)

Period	*Manufacturing*	*Mining & Quarrying*	*Electricity*	*General*
1	*2*	*3*	*4*	*5*
1970-80 (1970 = 100)	3.9	3.8	7.0	4.2
1980-81–1988-89 (1980-81 = 100)	7.3	9.0	8.9	7.7
1984-85–1988-89 (1980-81 = 100)	9.0	5.5	9.0	8.5

Table 10.2

Trends in the Performance of Infrastructure Industries@

Year	*Composite Index of Infrastructure Industries*	*Percentage Variation over the previous Year*
1	*2*	*3*
1980-81	100.0	–
1981-82	115.5	+15.5
1982-83	124.5	+7.8
1983-84	132.5	+6.4
1984-85	145.0	+9.4
1985-86	156.7	+8.1
1986-87	168.4	+7.5
1987-88	178.6	+6.0
1988-89	193.1	+8.1
1989-90 (April-January)	201.0	+6.5
1988-89 (April-January)	188.8	+8.0

Note : Compound growth rate in infrastructure industries between 1980-81 to 1988-89 is 8.6 per cent per annum.

@ : Includes Electricity, Coal, Saleable Steel, Petroleum Crude, Petroleum Refinery Products and Cement. These six industries account for a weight of 28.77 per cent in IIP.

Table 10.3

Index of Industrial Production: (Base 1980-81=100)

(Annual Growth Rates)

(per cent)

Industry	Annual Growth Rates								Compound Growth between 1980-81 to 1988-89
	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	
1	2	3	4	5	6	7	8	9	10
Manufacture of Food Products	13.5	14.1	-6.5	-0.9	4.7	6.0	4.4	6.8	5.1
Manufacture of Beverages, Tobacco and Tobacco Products	4.3	3.4	-3.1	6.9	0.4	-12.1	-13.8	8.5	-1.0
Manufacture of Cotton Textiles	-0.3	-10.3	12.1	1.9	8.0	1.9	-1.2	-3.5	0.9
Manufacture of Jute, Hemp & Mesta Textiles	-4.3	-2.9	-15.8	27.1	-2.2	4.0	-10.0	12.3	0.3
Manufacture of Textile Products (including wearing apparel)	-3.3	-0.4	-4.4	3.8	18.0	-22.8	5.3	46.3	3.7
Manufacture of Wood & Wood Products	53.2	-0.1	9.5	29.2	3.1	10.3	-34.3	6.2	7.0
Manufacture of Paper & Paper Products	8.2	-2.5	3.6	20.6	12.6	9.9	1.9	3.0	7.0
Manufacture of Leather, Fur & Leather Products etc.	28.1	-21.8	16.2	20.1	21.1	5.0	4.4	-4.4	7.4
Manufacture of Rubber, Plastic, Petroleum and Coal Products	19.1	-0.1	14.4	8.2	3.9	-2.2	3.7	8.5	6.7
Manufacture of Chemical and Chemical Products	16.9	3.7	8.1	9.0	8.1	13.7	14.5	16.1	11.2
Manufacture of Non-metalic Mineral Products	6.7	-2.8	18.1	13.0	13.7	1.9	-1.4	16.8	8.0
Basic Metal & Alloy Products		4.2	-8.7	12.8	9.0	8.4	6.9	6.9	4.7
Manufacture of Metal Products & Parts	-5.4	-5.0	-2.0	19.2	9.2	8.5	4.2	3.0	3.7
Manufacture of Machinery/Machine Tools except Electric Machinery	11.1	0.8	6.8	6.7	2.0	8.1	-1.8	15.2	6.1
Manufacture of Electric Machinery	3.9	11.5	23.5	4.0	34.8	27.0	31.6	4.6	17.0
Manufacture of Transport Equipment	8.1	3.0	10.9	6.6	3.2	6.7	4.8	13.1	7.0
Other Manufacturing Industries	49.2	3.9	-32.5	17.4	24.3	54.2	15.6	11.1	14.8
Total Manufacturing	**7.9**	**1.4**	**5.7**	**8.0**	**9.7**	**9.3**	**7.9**	**8.9**	**7.3**
Mining	17.7	12.4	11.7	8.8	4.2	6.2	3.8	7.9	9.0
Electricity	10.2	5.7	7.6	12.0	8.5	10.3	7.6	9.6	8.9
General	9.3	3.2	6.7	8.6	9.2	8.7	7.7	8.8	7.7

Source: Central Statistical Organization.

Table 10.4

Annual Compound Growth Rates of Index of Industrial Production
Use-Based Classification

(per cent)

	Basic Goods	Capital Goods	Intermediate Goods	Consumer Goods	Consumer Durables	Consumer Non-Durables	General Index
1	2	3	4	5	6	7	8
1970-80 (1970=100)	5.1	5.3	3.5	3.1	5.0	2.9	4.2
1980-81–1988-89 (1980-81=100)	8.3	9.5	6.5	6.5	15.5	5.0	7.7
1984-85–1988-89 (1980-81=100)	7.9	12.9	7.0	8.0	16.8	3.3	8.5

Given the weights of these various groups, it is possible to derive how much each of these groups has contributed to the overall growth. For the period 1980-81 to 1988-89, the overall growth in industrial production, as already mentioned was 7.7 per cent. Of this growth, 47 per cent was contributed by basic goods, 21 per cent ‘by capital goods, 16 per cent by intermediate goods, seven per cent by consumer durable goods and nine per cent by non-durable consumption goods (Table 10.5). Quite clearly, basic and capital goods have contributed mainly to the overall growth. Consumer durable goods, which have a weight of only 2.55 per cent in the index, contributed as much as seven per cent to the overall growth. On the other hand, consumer non-durable goods, which have a weight of 21 per cent in the total index, contributed only nine per cent. The contribution of durable consumption goods to the overall growth at seven per cent was higher than the contribution during the Fifth Plan period at 4.3 per cent (Table 10.6).

While during the past four decades, India has been able to build a diversified industrial structure, the policies pursued have also resulted in a high cost economy. The 1980s saw several policies initiatives aimed at improving the competitiveness of Indian industry and also in bringing about greater modernization and cost efficiency. This meant adoption of several measures to facilitate capacity creation and output expansion and to remove impediments. Measures to facilitate capacity creation have taken the form of delicensing a number of industries and increasing the threshold level for licensing substantially subject to certain locational prescriptions. Minimum capacity levels have been prescribed for selected industries with a view to preventing fragmentation of capacity at uneconomic levels. Under this policy, existing manufacturing units are automatically allowed to expand their capacities up to the prescribed minimum economic levels, while new units are sanctioned only for the minimum capacity levels. The facility of broad banding which enables manufacturing enterprises to adjust their product mix in line with changing market conditions and facilitate better capacity utilisation –has been allowed in respect of a number of industries.

Table 10.5

Contribution of the use-based groups to the Annual Average Growth Rate in General Index

(Base: 1980-81 = 100)

Item	Weight	Seventh Plan Period (1984-85-1988-89) (four years)		1980-81-1988-89 (eight years)	
		Contribution	Contribution Weighted Sectoral Growth	Contribution	Contribution Weighted Sectoral Growth
1	2	3	4	5	6
1. Basic Goods	39.42	37.59	3.21	46.87	3.37
2. Capital Goods	16.43	26.11	2.18	21.12	1.60
3. Intermediate Goods	20.51	15.46	1.32	15.73	1.25
4. Consumer Goods	23.65	20.85	1.77	16.28	1.49
Of which:					
a) Durable Goods	2.55	7.16	0.62	6.65	0.51
b) Non-durables	21.10	13.69	1.15	9.63	0.98
Total	100.00	100.00	8.50*	100.00	7.71*

*: Obtained as the average of annual growth rate for the period.

Table 10.6

Contribution of the Use-Based Groups to the Annual Average Growth Rate

(Base 1970=100)

Item	Weight	Fifth Plan Period (1974-75 to 1978-79)	
		Contribution	Contribution Weighted Sectoral Growth
1	2	3	4
1. Basic Goods	32.28	48.07	3.00
2. Capital Goods	15.25	13.46	0.84
3. Intermediate Goods	20.95	13.78	0.86
4. Consumer Goods	31.52	24.69	1.54
Of which:			
a) Durable Goods	3.41	4.25	0.26
b) Non-durables	28.11	20.44	1.28
Total	100.00	100.0	6.24

Industrial growth is very much linked to foreign trade policy. A policy of permitting imports, only if domestic production does not fulfil the domestic demand irrespective of cost and price factors, can only result in inefficiency in the production process. Therefore, an attempt has been made to liberalize the import of capital goods and other intermediates so what Indian industry is not isolated completely from external competition. In relation to industrial growth, two important questions have been raised.

1. First issue is whether the high rate of growth in industrial production seen in the last decade and more particularly in the last five years is sustainable, given the pattern of industrial output.

2. The second issue relates to the employment potential of the present pattern of industrial growth.

It has been pointed out that the strong Growth of durable consumption goods implies that the production structure is responding to demand from a restricted income group and therefore, future growth may be inhibited as demand from this group tapers off. Quite clearly, durable consumption goods have grown faster than any other sector of industrial production. Their weight in the total index is however, small. Therefore, the contribution of durable consumption goods to the overall growth during the Eighties has been only seven per cent. The picture is unlikely to change very much even if one takes account of the fact that some part of the output of basic and intermediate goods industries must have gone as inputs to the consumer durable goods industries. It is, therefore, difficult to sustain the argument that the faster growth achieved in the recent past is accounted for only by the growth in durable consumption goods industries. As mentioned before, there has been a substantial growth in the basic and capital goods industries as well.

In this context it is pertinent to note that output composition of consumption goods industries cannot be exogenously determined. The output composition is determined by the level and distribution of income and in that sense, the consumption vector is endogenous. When the production of durable consumption goods assumes a larger weight in the total Index of Industrial Production, industrial growth may begin to show noticeable year to year swings, as the demand for durable consumption goods can get bunched. The high rate of growth of durable consumption goods industries reflects the rapid growth in the organised sector incomes. The revisions in the wage structures of government employees and others and the bulk payment of arrears must have had a direct impact on the consumption of durable goods.

The second area of concern relates to the sluggishness in the growth of employment. Acceleration of growth in the Eighties has not been matched by a corresponding acceleration in employment.

The employment elasticity with respect to aggregate output appears to be declining. Changes in the occupational structure in favour of manufacturing and other non-agricultural activities are an essential part of the development process. It is in this context, the trend towards the decline in employment elasticities in manufacturing has been disturbing. Employment generating capacity of output growth in general has been tending to decline. Total employment in the organised private sector industry was 72.27 lakhs at the end of March 1980. It reached the peak of 75.52 lakhs at the end of March 1983 and thereafter it has consistently remained below that level, with the latest data for March 1988, placing it at 73.91 lakhs. Within the private organised sector, the fall in employment in manufacturing has been much more conspicuous. It attained the peak of 46.61 lakhs at the end of March 1982 and fell to 43.99 lakhs at the end of March 1988, thus showing an absolute fall of 5.6 per cent over a period of six years. Employment in the public sector has, however, been steadily rising in the Eighties.

10.4 GOVERNMENT POLICY TOWARDS PUBLIC SECTOR SINCE 1991

The new industrial policy announced by the government in July 1991 emphasized the following four major measures to 'reform' the public sector enterprises: (i) reduction in the number of industries reserved for the public sector from 17 to 8 (reduced still further to 3 later on) and the introduction of selective competition in the reserved area; (ii) the disinvestment of shares of a select set of public sector enterprises in order to raise resources and to encourage wider participation of general public and workers in the ownership of public sector enterprises (iii) the policy towards sick public sector enterprises to be the same as that for the private sector (iv) an improvement of performance through an MOU (memorandum of understanding) system by which managements are to be granted greater autonomy but held accountable for specified results. In addition there was a drastic reduction in the budgetary support to sick or potentially sick public sector enterprise.

10.4.1 Dereservations

The 1991 industrial policy reduced the number of number of industries reserved for the public sector from 17 to 8: (1) arms and ammunition, (2) atomic energy, (3,) coal and lignite, (4) mineral oils. (5) mining of iron ore, manganese ore, chrome ore. gypsum, sulphur, gold and diamond. (6) mining of copper, lead, zinc, tin, molybdenum and wolfram, (7) minerals specified in the schedule to the atomic energy (control of production and use order),1953; and (8) rail transport. In 1993, items 5 and 6 were deleted from the reserved list. In 1998-99, items 3 and 4 were also taken out from the reserved list. On May 9 2001, the government opened up arms and ammunition sector also to the private sector Thus, now only 3 industries are reserved exclusively for the public sector. These are atomic energy mineral specified in the schedule to the atomic energy (control of production and use order) 1953, and rail transport.

10.4.2 Memorandum of Understanding

One of the major initiatives towards the public sector as outlined in the new industrial policy of July 1991 was to bring all public sector enterprises under the system of Memorandum of understanding (MOU). The system of MOU envisages an arm's length relationship between PSU and the administrative ministries. It gives clear targets to PSUs and ensures operational autonomy to them for achieving those targets. The MOU system was started in 1987-88 with four PSUs signing MOUs. This number went upto 200 CPSEs in 2010-11. The government has now decided that all CPSEs including risk and loss-making and CPSEs under construction will be covered under the MOU system.

10.4.3 Navratnas, Maharatnas and Minirathnas

The government has identified 16 public sector enterprises as Navratnas and decided to give enhanced power to the Board of Directors of these enterprises to facilities their becoming global players, The Boards of these Navratna enterprises have been professionalized by induction of non-official part-time professional Directors. These PSUs have been delegated substantial enhanced autonomy and operational freedom which include: (i) incurring capital expenditure, (ii) entering into joint ventures (iii) effecting organizational restructuring, (iv) creation and winding up of posts below Board level, (v) to raise capital from the domestic and international market and (vi) to establish financial joint ventures subject to equity investments with special limits.

The government has also granted financial and operational autonomy to some of the other profit-making PSUs subject to fulfilling certain conditions. These enterprises are categorized as Miniratnas. The enterprises which have made profits continuously for the last three years and have earned a net profit of Rs 30 crores or more in one of the three years, with positive net worth are categorized as Miniratnas I. Category II Miniratnas should have made profits for the last three years continuously and should have a positive net worth. Both these categories of public sector enterprises are granted certain autonomy like incurring capital expenditure without government approval upto Rs 300 crores or equal to their net worth whichever is lower (for category I miniratna companies) and upto Rs 150 crores or upto 50 per cent their net worth whichever is lower (for category II miniratna companies). These enterprises can also enter into joint ventures subject to certain conditions, set up subsidiary companies and overseas offices, enter into technology point ventures, etc. The total number of Miniratna Central public sector enterprises is presently 61 (47 category -I and 14 category - II).

In December 2009, the Government of India approved the introduction of Maharatna category for CPSEs (Central Public Sector Enterprises). The main objective of creating a Maharatna category is to empower the capable CPSEs to expand their operations and emerge as global giants. The Board of Maharatna CPSEs will be able to exercise all powers given to Navratna CPSEs and, in addition, exercise enhanced power in the area of investment in joint ventures/subsidiaries. On May 10, 2010, Government of India coveted the Maharatna status to four public sector companies, viz., SAIL, NTPC, IOC and ONGC

10.4.4 Disinvestment of Shares

The Government of India has decided to withdraw from the industrial sector and, in accordance with this decision, it is privatizing the public sector enterprises in a phased manner. The main approach of the government in this regard is to bring down its equity in all non-strategic public sector undertakings to 26 per cent (or lower) and close down those public sector undertakings which cannot be revived. For purposes of privatization, the government has adopted the route of disinvestment which involves the sale of the public sector equity to the private sector and the public at large. The proceeds from disinvestments were used to finance Budget deficits and thus to 'window-dress' budgets, "This meant that while there has been much talk of managerial reform, voluntary retrenchment, and greater public sector autonomy for meeting the new market environment, the thrust of public sector reform was almost entirely concentrated on the sale of equity."

10.4.5 Setting up of BRPSE

The government in December 2004 set up a Board for Reconstruction of Public Sector Enterprises (BRPSE) to recommend measures for restructuring/reviving central PSUs referred to them. The BRPSE also recommends cases where disinvestment or closure or sale are justified. For the purpose of making reference to BRPSE, a company is considered sick if it has accumulated losses in any financial year equal to 50 per cent or more of its average net worth during 4 years immediately preceding such financial year and/or a company which is a sick company within the meaning of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). The BRPSE made recommendations in respect of 62 CPSEs until October 31.2011. The government, in turn, approved proposals for revival of 43 CPSEs and closure of two. The total assistance approved by the government in this regard up to October 31, 2011 stood at (25,104 crores. Out of the 43 CPSEs approved for revival by the government, 13 turnaround CPSEs posted profit before tax (PBT) consecutively for three a more years.

10.5 TERMS OF TRADE BETWEEN AGRICULTURE AND INDUSTRY

Movements in Relative Prices

Many economists use data on the comparative movement of the Wholesale Price Index of Agricultural Sector over the Manufacturing Sector as indicative of the terms of trade between these sectors. During the period 1963-64 to 1970-71, prices of agricultural commodities as per cent of prices of manufactures were consistently more than 100 implying that during this period, the terms of trade moved in favour of agriculture and against industry.

During the period 1971-72 to 1981-82, on the other hand, prices of agricultural commodities as per cent of prices of manufactures were consistently less than 100 indicating that the terms of trade moved against agriculture and in favour of industry during this period. Date covering the period 1982-83 to 2011-12 are presented in Table I.

As is clear from the last column of Table 1, agricultural price index as per cent of manufacturing is greater than 100 for all years included in the Table. This shows that the terms of trade (defined in terms of relative prices) have consistently been in favour of agriculture since early 1980's. It has been argued that reductions in the protection to the manufacturing sector in the post economic reform period (thereby reducing anti-agriculture bias), higher increases in MSP (Minimum Support Prices) in recent years, lifting some of the restrictions on agricultural

Table 1

Index Number of Wholesale Prices of Agricultural Commodities Relative to Manufactured Products.

Year	*General Index of Whole sale Prices*	*Price Index of Agricultural Products*	*Price Index of Manufactured Products*	*Agriculture Price Index as per cent of Manufacturing*
		Base 1981-82 = 100		
1982-83	104.9	107.3	103.5	103.7
1983-84	112.8	121.4	109.8	110.6
1984-85	120.1	129.2	117.5	109.6
1985-86	125.4	129.1	124.4	103.8
1986-87	132.7	142.8	129.2	110.5
1987-88	143.5	161.8	138.5	116.8
1988-89	154.2	170.9	151.6	112.7
1899-90	165.7	174.4	168.6	103.5
1990-91	182.7	198.3	182.8	108.5
1991-92	207.8	236.8	203.4	116.4
1992-93	228.7	255.5	225.6	113.2
1993-94	247.8	271.4	243.2	111.6
		Base 1993-94=100		
1994-95	112.6	116.0	112.3	103.3
1995-96	121.6	126.0	121.9	103.4
1996-97	127.2	136.4	124.4	109.7

1997-98	132.8	140.3	128.0	109.6
1998-99	140.7	157.2	133.6	117.7
1999-2000	145.3	159.1	137.2	116.0
2000-01	155.7	163.7	141.7	115.5
2001-02	161.3	169.5	144.3	117.5
2002-03	166.8	175.3	148.1	118.4
2003-04	175.9	182.9	156.5	116.9
2004-05	187.3	186.7	166.3	112.3
		Base 2004-05=100		
2005-06	104.5	103.4	102.4	101.0
2006-07	111.4	112.5	108.2	104.0
2007-08	116.6	121.5	113.4	107.1
2008-09	126.0	133.5	120.4	110.9
2009-10	130.8	151.0	123.1	122.7
2010-11	143.3	176.6	130.1	135.7
2011-12	156.1	190.4	139.5	136.5

Source : Government of India, Economic Survey, 2012-13 (Delhi, 2013), Appendix Table 5.4, p. A66.

trade etc, have created conditions to bring about a more favourable trade regime for agricultural products.

Task Force's Calculation of Terms of Trade

Although movements in relative prices between agriculture and industry are taken as indicative of movements in terms of trade between these sectors, this veiw is too simplistic. Neither the relative prices can be considered as indicative of terms of trade nor can the use of wholesale prices be considered appropriate. In serious discussions on terms of trade, it is frequent to distinguish between net batter terms of trade and income terms of trade. Net barter terms of trade can be defined as 'the comparison of prices of exports of one sector with the prices of imports from the other sector.' If P_x and P_m represent prices of exports from, and imports to, the agricultural sector, the net barter terms of trade would be expressed as P_x/P_m Income terms of trade are measured by the product of this ratio and the index of quantity of exports for a sector. For instance, if Q_x is the index of quantity of exports from the agricultural to the non-agricultural sector, the income terms of trade would be expressed as $Q_x \times P_x/P_m$

An intense debate has taken place in India over the years on the question of methodology in calculating the above terms of trade, coverage of the items, weights and price indicators, etc. To settle this question, the Government of India constituted a Task Force in March 1993 headed by A.S. Kahlon to examine the whole issue in detail and suggest a suitable methodology for constructing the index of terms of trade. After considering the various indices of terms of trade being constructed by several countries as reported by the Food and Agricultural Organisation (FAO) the Task Force presented a suitable methodology to compute an index of terms of trade for India. The recommended index is expressed as a percentage of the ratio of index of price received for agricultural products to index of price paid by the farm sector for final consumption, farm inputs and capital investment in agriculture. The terms of trade between agricultural and non-agricultural sectors is now being computed by the government on the basis of the methodology recommended by the Task Force. The index as prepared and published by the Ministry of Agriculture recently is presented in Table 2.

The terms of trade were against agriculture throughout the 1980's as the index given in the last column of Table 2 was less than 100 all through the years 1982-83 to 1989-90 (to save space only data for three years in the 1980's are given in the table). After that, there was a distinct turnaround and terms of trade moved in favour of agriculture (the index being more than 100 from 1990-91 onwards)

During the period since 1990-91, the index of terms of trade ranged between a high of 106.6 in 1994-95 and a low of 100.3 in 2004-05. In contrast, the index of terms of trade averaged around 95.0 during the 1980's. The rising index of prices received by the farmers has been supported by the public policy of annual hikes in the minimum support

Table 2

Index of Terms of Trade between Agricultural and Non-Agricultural Sectors.
(Base : Trienium ending 1990-91=100)

Year	*Index of Prices Received (IPR)*	*Index of Price Paid (IPP) forPrice*			*Combined index (IPP)*	*Indes of Terms of Trade =(IPR/IPP)×100*
		Final Consumption	*Intermediate Consumption*	*Capital Formation*		
1982-83	60.3	58.8	91.1	62.6	66.0	91.4
1885-86	70.4	69.5	94.3	76.4	75.2	93.6
1989-90	97.5	97.6	99.2	100.6	98.1	99.4
1990-91	112.3	112.1	104.0	108.5	110.2	101.9
1993-94	151.4	143.9	152.9	147.3	146.1	103.6
1994-95	171.1	159.0	166.1	158.4	160.5	106.6
1995-96	182.9	173.4	174.2	176.1	173.7	105.3
1997-98	205.9	195.7	192.0	196.7	194.9	105.6
1999-2000	219.8	217.1	203.9	212.6	214.0	102.7
2000-01	225.0	220.5	230.4	227.0	223.0	100.9
2001-02	235.3	226.4	235.2	240.4	229.0	102.8
2002-03	247.9	234.9	252.7	245.2	239.3	103.6
2003-04	251.2	245.2	259.1	255.7	248.7	101.0
2004-05	258.2	252.3	264.5	305.6	257.5	100.3
2005-06	275.8	266.0	277.1	310.5	270.6	101.9
2006-07	291.2	283.4	284.6	327.8	285.8	101.9
2007-08	324.3	323.2	301.5	356.1	320.1	101.3
2008-09	350.9	350.8	332.8	380.1	348.3	100.7
2009-10	411.6	415.1	355.0	394.0	401.1	102.6

Source : Government of India, Ministry of Agriculture, Agricultural Statistics at a Glance, 2011, (Delhi, 2011) Table 6.5, p.207

prices (MSP) of 22 major crops over the years. In the right of the trends in terms trade noted above, the following observations made in Reserve Bank of India's Report on Currency and Finance are important :

1. Over the long-term, the improvement in gross terms of trade (TOT) has been associated with higher output. It has also been associated with increased private investments. However, these gains have been at the cost of impoverishing the rural poor, though farmers with significant surpluses apparently gained.

2. In the chapter on 'Agricultural Inputs and Green Revolution' we had noted that there has been a deceleration in agricultural growth in 1990's vis-a-vis 1980's. However, as shown in Table 2 above, the period of 1990's has been marked by terms of trade moving in favour of agriculture. Thus a paradoxical situation emerges. According to the Report. "It is possible that this may be the outcome of aggregate supply response being price-inelastic because of fixity of land and resource-specificity in which agro-climatic conditions, inter alia, are crucial determinants of cropping pattern. It is also possible that the overall impact of TOT on aggregate supply is small, as the favourable TOT may induce marketed supply through a decline in self-consumption among farmers but is offset by the positive income effect that triggers self-consumption."

3. It is necessary to examine the relationship between the deceleration in agricultural output in 1990's and the aggregate measure of support (AMS) which has been estimated to be negative. An estimate of AMS computed by Ashok Gulati and Sudha Narayanan in accordance with the specifications set out in the Uruguay Round Agreement of Agriculture shows that Indian agriculture has been net taxed throughout the 1990's (the 15 commmodity AMS being-26.64 in 1990,-45.39 in 1994,-33.76 in 1999 and-25.62 in 2000).[21] **Negative AMS for agriculture indicate a negative protection and provides the justification for policy measures aimed to move TOT in favour of agriculture.** However, while designing these measures, it is necessary to keep in view the interests of small and marginal farmers and agricultural labourers who depend on the public distribution system and the market for meeting their food requirements. A rise in food prices following agricultural price support could thus make the policy counter-productive, if supply response is poor.

10.6 SUMMARY

A number of initiative taken by the govt. for the industrial development such as new industrial policy, dereservation, identification of Navratnas, Maharatnas and Miniratnnas. Besides this, the government of India has decided to withdrew from the industrial sector and in accordance with this decision, it is privatizing the public sector enterprises in a phased manner and close down the public sector undertaking which cannot be revived.

10.7 QUESTIONS

Q.1 State and explain the New industrial Policy 1991.

Q.2 Discuss about the Navratnas, Maharatnas and Miniratnnas.

Q.3 Explain the terms of trade between Agriculture and Industry.

REFERNCE / SUGGESTED READING :

- Misra & Puri : Indian Economy, Himalaya Publishing House Pvt. Ltd., Mumbai

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PARADIGM SHIFTS IN INDUSTRIAL POLICY AND JOBLESS GROWTH

Structure

11.1 OBJECTIVE

After going through this chapter, you will be able to :

- Explain the Pre reform Industralization Paradigm.
- Explain new Economic Policy.
- Understand trends in Industrial Production.

- Explain manufacuring ‘Jobless’ growth during the 2000’s.

11.2 INTRODUCTION

All developed countries have gone through a process of transformation, which meant a shift from agriculture to industry. Between 1870 and 1930, the proportion of active population employed in agriculture had declined from 54 per cent to 23 per cent in the US, from 85 per cent to 51 per cent in Japan, and from 42 per cent to 25 per cent in France. Given this historical development world over, it is not surprising that growth was identified with industrialization in the developing economies. The Indian planners, however, went a step further and talked of industrialization with an emphasis on heavy industries. The Second Five-Year Plan (1956-61) gave expression to it, when it said that the Plan “accords high priority to industrialization and especially to the development of basic and heavy industries”. It was no doubt recognized that for the process of industrialization to start, there has to be a transfer of resources from agriculture. The Second Five-Year Plan recognized this clearly when it said “development involves a transfer of part of the working force from agriculture to secondary and tertiary activities, but this, in turn, presupposes an increase in productivity in agriculture itself, if the food and raw material requirements of a developing economy are to be met” (Government of India: 1956). However, in actual fact, the realization that inadequate agricultural growth and insufficient availability of wage goods, including foodgrains, could act as a restraint on industrial growth, came only later.

11.3 PRE-REFORM INDUSTRIALIZATION PARADIGM

The process of industrialization in India in the first four decades was governed by two considerations - import substitution and industrial licensing. Import substitution constituted a major plank of India’s foreign trade policy and, therefore, of industrialization. Planners, more or less chose to ignore the option of foreign trade as an engine of India’s economic growth. This was primarily due to the then widely prevalent view that exports could not be a significant factor in economic growth of developing economies - a perspective that came to be termed “export pessimism” in the literature. A further impetus to the inward orientation was provided by the existence of a vast domestic market. In retrospect, it is clear that the policy makers not only underestimated the export possibilities but also the import intensity of the import substitution process itself. As a consequence, India’s share of total world exports declined from 1.91 per cent in

1950 to a mere 0.53 per cent in 1992.

The inward looking industrialization process did result in high rates of industrial growth between 1956 and 1966, as may be observed from Table 3. However, several weaknesses of such a process of industrialization soon became evident, as inefficiencies crept into the system and the economy turned into an increasingly ‘high-cost’ one. Over a period of time, this led to a ‘technological lag’ and also resulted in poor export performance.

There was a scheme of import licensing, under which imports were permitted only to the extent that domestic production fell short of domestic demand, irrespective of difference in cost and prices would lead to inefficiency.

Table 3

Annual Growth Rate in the Index of Industrial Production

(per cent)

Period	General Index	Basic Industries	Capital Goods	Intermediate Goods	Consumer Goods
1951 to 1955	6.7	30.9*	-	5.8	3.4
1956 to 1960	5.7	4.7*	-	9.8	2.9
1961 to 1965	9.0	10.5	19.7	7.2	5.0
1966 to 1970	3.7	6.2	-1.4	4.0	4.0
1971 to 1975	3.6	5.3	5.4	1.8	1.6
1976 to 1980	4.8	5.1	5.2	-	4.9
1981-82 to 1985-86	7.3	8.4	7.1	6.3	6.7
1986-87 to 1990-91	8.4	7.4	15.8	5.5	6.6
1991-92 to 1995-96	6.1	6.5	6.0	6.1	6.0
1996-97 to 2000-01$	5.7	4.2	7.7	7.1	5.5
1992-93 to 1996-97	7.4	6.8	8.9	8.5	6.6
1997-98 to 2001-02 $	5.1	4.1	4.7	5.8	5.5

Notes: * Figures represent investment goods industries, which are the basic and capital goods industries.

$ Refers to Base Year 1993-94 = 100 and all other periods since 1981-82 refers to Base Year 1980-81 = 100.

Sources: Rangarajan, C. (1982 and 1994), *Handbook of Statistics on Indian Economy, 2001*, Reserve Bank of India and the *Annual Report*, Reserve Bank of India 2001-02.

Another important element in the process of industrialization was a system of industrial licensing under which a license was required before setting up any large unit. This practice had roots in the belief that resources could be best allocated only by a planning authority and that licensing was the best way to manage limited resources.

11.4 NEW ECONOMIC POLICY

The year 1991 is an important landmark in the economic history of post-Independent India. The country went through a severe economic crisis, triggered by a serious balance of payments situation. The crisis was converted into an opportunity to introduce some fundamental changes in the content and approach to economic policy. The response to the crisis was to put in place a set of policies aimed at stabilization and structural reform. While the stabilization policies were aimed at correcting the weaknesses that had developed on the fiscal and the balance of payments fronts, the structural reforms sought to remove the rigidities that had entered into the various segments of the Indian economy. The structural reforms introduced in the early 1990s broadly covered the areas of industrial licensing, foreign trade, foreign investment, exchange rate management and the financial sector. From the point of view of industrialization, changes in the areas of licensing, foreign trade and investment had important implications. Even before the onset of reforms, the problems associated with industrial licensing were well recognized. One early step that was undertaken as part of the structural reform process was to dispense with licensing. Changes in foreign trade policy focused on reducing the tariff rates and dismantling quantitative controls over imports. The tariff rates have been brought down in stages. Some caution in this regard had become necessary to enable the Indian industries, set up behind high protective tariff walls to adjust to the changed situation. The policy towards foreign investment underwent a significant change with foreign investors given the freedom to own majority shareholding over a wide spectrum of industries.

The thrust of the New Economic Policy has been towards creating a more competitive environment in the economy as a means to improving the productivity and efficiency of the system. This was to be achieved by removing the barriers to entry and the restrictions on the growth of firms. While the Industrial policy of 1992 sought to bring about a greater competitive environment domestically, the counterpart Trade Policy, set out in the same year, sought to improve international competitiveness, subject to the degree of protection offered by the tariffs. The private sector was to be given a larger space to operate in as much as some of the areas, reserved exclusively earlier for the public sector were now to be opened to the private sector.

11.5 TRENDS IN INDUSTRIAL PRODUCTION

Table 4 provides the basic data on the growth rate. In the 1950s, the average annual rate of growth of industrial production was 6.2 per cent. In the 1960s, while the first half had a very high growth rate, the second half showed a sharp decline. This deceleration in growth rate continued through the 1970s. Thus, over the fifteen-year period 1966-80, the rate of industrial growth was at a modest annual rate of four per cent. The growth rate picked up substantially in the decade of the 1980s, when the average annual growth rate was 7.8 per cent. There was a collapse of the industrial growth rate in 1991-92 and a small growth in 1992-93 (Tables 2, 3 and 4). Since 1992-93, the average annual growth rate will the end of that decade was six per cent. While the period 1992-93 to 1996-97, had an annual growth rate of 7.4 per cent, in the subsequent period the growth rate came down and the average for the next five years is only 5.1 per cent (Table 4).

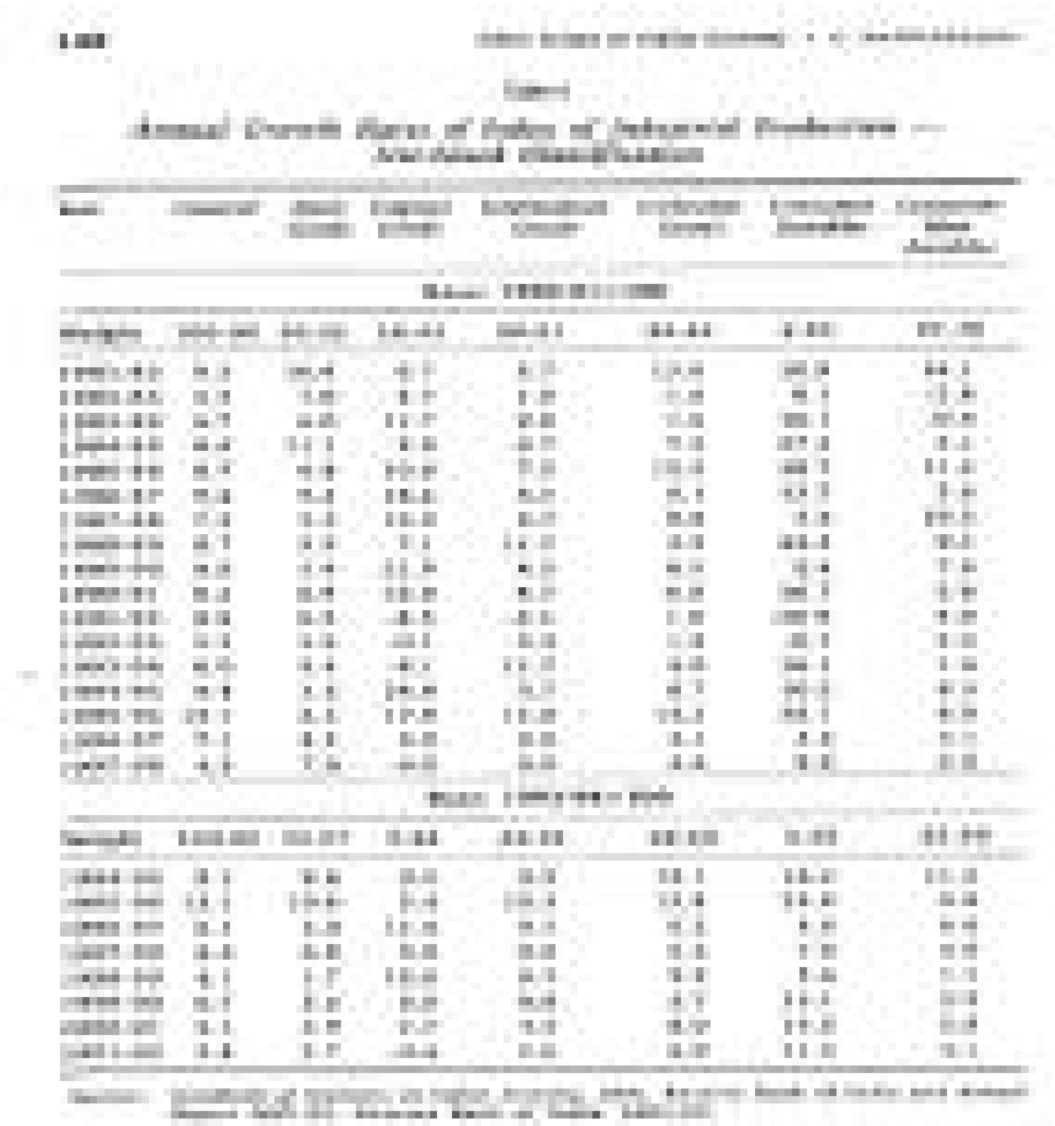


Table 3

Annual Growth Rates of Index of Industrial Production & Its Components

Year	*Mining & Quarrying*	*Manufacturing*	*Electricity*	*General*
		Base: 1980-81=100		
Weight	11.46	77.11	11.43	100.00
1981-82	17.7	8.0	10.2	9.3
1982-83	12.4	1.3	5.7	3.2
1983-84	11.8	5.7	7.6	6.7
1984-85	8.8	8.0	12.0	8.6
1985-86	4.1	9.7	8.5	8.7
1986-87	6.2	9.4	10.3	9.2
1987-88	3.7	7.9	7.6	7.3
1988-89	7.9	8.7	9.5	8.7
1989-90	6.3	8.6	10.9	8.6
1990-91	4.5	8.9	7.8	8.2
1991-92	0.6	-0.8	8.5	0.6
1992-93	0.6	2.2	5.0	2.3
1993-94	3.5	6.1	7.5	6.0
1994-95	7.5	9.8	8.5	9.4
1995-96	7.4	13.6	8.1	12.1
1996-97	0.4	8.6	3.9	7.1
1997-98	4.9	3.6	6.9	4.2
		Base: 1980-81=100		
Weight	10.47	79.36	10.17	100.00
1994-95	9.8	9.1	8.5	9.1
1995-96	9.8	14.1	8.1	13.1
1996-97	-2.0	7.3	4.0	6.1
1997-98	7.0	6.6	6.6	6.6
1998-99	-0.8	4.4	6.4	4.1
1999-00	1.0	7.1	7.3	6.7
2000-01	3.7	5.4	4.0	5.1
2001-02	1.3	2.9	3.1	2.8

Sources: Same as in Table 2.

Table 4

Industrial Growth Rates – Index of Industrial Production & National Accounts

Year	*Index of Industrial Production*		*National Accounts**
	1980-81=100	*1993-94=100*	*1993-94=100*
1981-82	9.3	—	8.8
1982-83	3.2	—	7.3
1983-84	6.7	—	8.8
1984-85	8.6	—	6.4
1985-86	8.7	—	4.6
1986-87	9.2	—	8.1
1987-88	7.3	—	6.9
1988-89	8.7	—	9.8
1989-90	8.6	—	11.2
1990-91	8.2	—	6.8
1991-92	0.6	—	-1.2
1992-93	2.3	—	4.1
1993-94	6.0	—	6.4
1994-95	9.4	9.1	11.3
1995-96	12.1	13.1	12.9
1996-97	7.1	6.1	8.2
1997-98	4.2	6.6	3.0
1998-99	—	4.1	2.8
1999-00	—	6.7	4.2
2000-01	—	4.9	6.2
2001-02	—	2.8	2.9

Note: * Refers to value added in industry, that is, mining & quarrying, manufacturing and electricity, gas & water supply.

Sources: Same as Table 2.

The composition of India's industrial output has also undergone considerable change (Table 5). The share of basic and capital goods combined had reached a peak of 55.8 per cent of total output in 1980-81. It has since then come down. In the Index of Industrial Production with the base 1993-94, their share has come down to 44.8 per cent.

Table 5

Weights of Major Industrial Groups in IIP

Groups	*1956=100*	*1960=100*	*1970=100*	*1980-81=100*	*1993-94=100*
Basic Goods	22.13	25.11	32.28	39.42	35.57
Capital Goods	4.71	11.76	15.74	16.43	9.26
Intermediate Goods	24.59	25.88	20.95	20.51	26.51
Consumer Goods	48.37	37.25	31.03	23.65	28.66
Consumer Durables	—	5.68	2.92	2.55	5.36
Consumer Non-durables	—	31.57	28.11	21.10	23.30

Sources: *Report on Currency and Finance*, Reserve Bank of India, various issues, and the *Handbook of Statistics on Indian Economy*, 2001, Reserve Bank of India.

Another aspect of the industrialization process in the post-liberalization period has been the steady flow of Foreign Direct Investment (FDI). In 1991, the level of FDI flows into the country was $ 97 million. Through the 1990s it increased from year to year and reached a peak of $ 3,557 million in 1997-98. After some set back during the next three years, it has again started increasing. In 2001-02, the FDI inflows increased to $ 3,904 million, an increase of 67 per cent over the previous year. In 2002-03, upto the end of October, FDI inflows were at $ 1,984 million, marginally lower than that for the same period last year.

New Challenges

Globalization and Competition

A greater integration of the Indian economy with the rest of the world is unavoidable. It is important that Indian industry be forward looking and get organised to compete with the rest of the world at levels of tariff , comparable to those of other developing countries. Government should be alert to ensure that Indian industries are not the victims of unfair trade practices. The safeguards available in the WTO agreement must be fully utilised to protect the interests of Indian industries. Focus should be on what India wants from the global trading system, such as prohibition of unilateral trade action, establishing symmetry between the movements of capital and natural persons and zero tariffs in industrialized countries on labour intensive exports of developing countries.

Productivity Growth

Higher productivity in the industrial sector helps to achieve faster economic growth. A recent study on sources of output growth in developing countries found that about 60-70 per cent of per capita growth is explained by capital accumulation, about 10-20 per cent by human capital and the remaining is explained by improvement in Total Factor Productivity (IMF 2000)[1]. Industrial growth in India, like many developing countries has seldom witnessed rapid productivity growth.

Technology Intensity

Technology is the lifeblood of industry. Future Progress will be propelled by technology, as it has been so in the past. The Indian manufacturing sector must be fully in tune with the latest development in technology. It is in this context that one must note with concern, the declining trend in the ratio of Research and Development (R&D) expenditures. The proportion of national resources spent on R&D by India has fallen steadily from a peak of 0.98 per cent in 1988 to 0.66 per cent in 1997. The bulk of R&D expenditure in India is accounted for by the public funded R&D institutions with industry spending only 28 per cent of national R&D expenditure. Even adaptation of imported technology will require R&D efforts. It is necessary that industry associations make an in-depth analysis of R&D expenditures.

Road Map for Indian Industry

In enhancing the level of investment, there are four critical factors[2]:

1. First, all investment decisions are based on future prospects. Continuation of economic policy thus becomes sustaining expectations in the right direction. There has to be a consensus on the core elements of economic policy among

decision-makers, legislators and political leaders.

2. Second, if the 'feel good' factor is to be restored as a stimulant of 'animal spirits', good governance has an important role to play. Investors need to be assured of dynamism and efficiency in overall governance.

3. Third, for generating a general mood of optimism, it may be useful for the Government to bring together in one place in the budget, the investment what will be made by the various Departments and Ministries. A consolidation of this can be called 'investment budget'.

4. Fourth, one important factor contributing to the confidence of investors is stability in the rates of taxation and tariff rates. Unexpected downward revisions in tariffs make a lot of difference to profit calculations. While reduction in tariff rates to bring them in tune with levels prevailing in other developing economies is an important element of the reform process, there is need to inject stability in the rates. When the next change is made, it must be made clear that rates would remain at that level for at least a period of three to four years. Stability in tariff rate can have a significant favourable impact on investment decisions. A similar logic applies to stability in the rates of taxation.

11.6 INDIAN MANUFACTURING 'JOBLESS' GROWTH DURING THE 2000'S

An important feature of the Indian economy has been the relatively small contribution made to it by the manufacturing sector. In 2006, the share of manufacturing in gross domestic product (GDP) was only 6.1 per cent in India, compared to 30.9 per cent in China. India's manufacturing sector consists of the organized and unorganized segments. In 2009-10, as per the National Sample Survey data, the total manufacturing employment (organized and unorganized combined) in the country was 52 million. This accounted for just 11.3 per cent of India's total workforce of 459 million. Manufacturing workers belonging to the factory sector, which is also known as the organised or the registered sector, numbered 11.3 million in 2009-10.[2] The rest of the manufacturing workers in India 40.7 million in number, were engaged in small, informal enterprises in the unorganized or unregistered sector. For a good part of the period after 1980, the growth of India's factory sector manufacturing has been characterized by, what is described in literature as, 'Joblessness'. This is because employment in India's organized manufacturing sector increased from 6.8 million in 1981 -82 to only 7.1 million in 1991-92 –an increase of just 0.3 million during a decade. Even in 2003-04, factory sector manufacturing employment in India numbered just 7.6 million, thus indicating only a marginal growth over the previous two decades (see Figure 1).

The 'jobless' growth of Indian manufacturing has been debated widely in both academic and policy circles. An influential view has been that the jobless growth is a consequence of the relative absence of 'flexibility' in India's labour market, which is, in turn, believed to be an outcome of certain labour regulations introduced in the country during the late 1970s.

11.7 MANUFACTURING GROWTH PERFORMANCE: A REVIEW

India recorded relatively fat industrial growth during the first fifteen years of India planning: that is, between 1950 and the mid-1960s. However, beginning in the mid-1960s, Indian industry entered a phase of marked deceleration in growth. This phase of industrial growth stagnation came to an end, and Indian industry was on a path of revival since the late 1970s or the early 1980s (Thomas, 2011c)[1]. As shown in Figure 1, India's factory sector manufacturing recorded rapid growth of value added production during the 1980s. However, factory employment growth in the country was stagnant during this decade (see Figure 1). The growth of value added production and employment in India's factor sector increased sharply during the early years of the 1990s. But, subsequently, India's factory sector entered a phase of stagnation that lasted till 2002. India's factory sector has been on a path of revival again after 2003-04 (see Figure 1 and Table 1). After touching a low of 7.6 million only in 2003-04, employment in India's organized manufacturing began to recover. After 2007-08, despite the global economic slowdown, organized manufacturing sector employment in India did not fall, but continued to rise. Between 2004-05 and 2009-10, India's organized manufacturing employment increased by an impressive 3.1 million (increasing from 8.2 million to 11.3 million) (see Figure 1). The growth experience of the unorganized sector was distinctly different from that of the organized sector in India during the 2000s. Between 1999-00and 2004-05, organized manufacturing employment in India increased by only 0.3 million (from 7.9 million to 8.2 million). However, during the same period, total manufacturing sector employment in India increased by 9.6 million. This indicates a massive addition of manufacturing jobs in the unorganized sector during the first half of the 2000s (see Figure I and Table 2). Quite the contrary had been the experience in the second half of the 2000s. Between 2004-05 and 2009-10, total manufacturing sector employment in India declined by 3.7 million even as organized sector manufacturing employment increased by 3.1 million. This suggests that there was massive –to the extent of 6.9 million –job losses in India's unorganized sector during the second half of the 2000s (see Figure I and Table 2).

11.8 INDUSTRY-WISE GROWTH PERFORMANCE

In India's factory sector, chemicals, petroleum, rubber and plastic products, together, accounted for a share of 24.2 per cent of the total value added production in 2009-10 - the highest by any industry group. Other industry groups that made large contributions to value addition were metal products, machinery equipment and instruments, and mineral products and metals. With respect to the growth of value added production during the 2000s, the top performers were the mineral products and metals, and motor vehicles and transport equipment sectors. So, it can be seen that capital-intensive and skill-intensive industries were the dominant and growing industries in India in regard to value creation in the factory sector during the 2000s (see Table 1).

At the same time, labour-intensive industries such as food, tobacco, beverages and textiles, garments, lather and footwear have declined in relative importance. The combined share of textiles, garments, leather and footwear in value added production by India's factory sector manufacturing declined from 16 per cent during 1980-83 to 12.3 per cent during 2005-08. Further, the growth of value added production by these industries was below the industry-wide average during the 2000s (see Table 1).

However, despite decline in value added production, these industries continued to be the leading ones in employment creation. Of the total manufacturing sector employment in India, textiles, garments, leather and footwear contributed 33.3 per cent of the workforce even in 2009-10. Food products, beverages, and tobacco products accounted for another 18.5 per cent of the total (see Table 2).

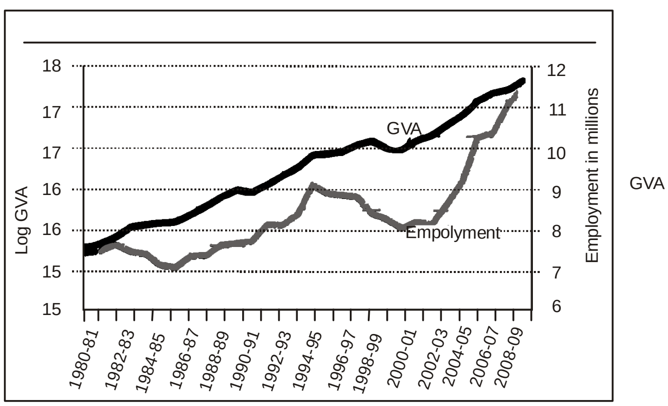
More importantly, 5.2 million out of the total of 9.6 million new jobs created in

India between 1999-2000 and 2004-05 were in the textiles, garments, and leather and footwear sector. Other industries that made significant job additions during the first half of the 2000s were: furniture, jewellery and gem cutting, wood and paper products, and non-metallic mineral products, mainly brick manufacturing. Notably, many of these industries were export-oriented (see Table 2).

However, these were also the very industries that suffered significant numbers of job losses during the second half of the 2000s, that is, between 2OO4-05 and 2009-10. During this period 1.6 million jobs were lost in the textiles, garments, leather and footwear industry; and another 1.6 million jobs were lost in wood and paper products. The slow-down in export markets in the wake of the global financial crisis seemed to have worsened the growth prospects of these industries (see Table 2).

Figure 1: Gross Value Added (in log values) and Employment (in millions) in India's Factory

Sector Manufacturing, 1980-81 to 2009-10



Source : Annual Survey of lndustries, various years.

Table 1 : Industries in India's Organized Manufacturing: Shares in Total Manufacturing Gross Value'Added (GVA) and Average Annual Growth of GVA

Industry	Shares in Total Manufacturing GVA, in %, 2005-08	Growth of GVA, in%, 2001-02 to 2009-10
Food products, beverages, tobacco products (15,16)	9.5	8.2
Textiles, garments, leather, leather goods, footwear(17,18, 19)	12.3	11.4
Wood, wood products, furniture, jewellery, toys (20, 36)	1.4	12.5
Paper, paper products, publishing, printing (21, 22)	2.8	8.6
Chemicals, petroleum, rubber and plastic products (23, 24, 25)	24.2	11.4
Mineral products, metals (26, 27)	18.8	13.6
Metal products, machinery, equipment, instruments (28,29,30,31,32,33)	20.7	16.9
Motor vehicles, transport equipment (34, 35)	10.4	15.9
Manufacturing (Factory sector/Total)	100	13.0

Notes: *Gross value added at constant 1993-94 prices. Rates of growth calculated using semi-logarithmic regression. Figures given in brackets are the National Industrial Classification (NIC) 1998 codes of the corresponding industries. Source: Annual Survey of Industries, various years.*

Table 2 : Industires in Indian Manufacturing : Shares in Total Employment (in %) and Net Increase in Employment (in 100,00 or lakh numbers), 1900-00 to 2009-10

	Shares in total	**Net increase in employment**	
Industries	**2009-10**	**1999-00 to 2004-05**	**2004-05 to 2009-10**
Food products, beverages, and tobacco products (15, 16)	18.5	-2.5	-3.4
Textiles, garments, leather products, footwear (17, 18, 19)	33.3	52.3	-16.4
Wood and paper products; printing, publishing (20, 2 1 , 22)	10.3	13.4	-16.1
Chemicals, petroleum, rubber and plastic products (23, 24, 25)	4.8	-0.5	-4.8
Non-metallic mineral products (26)	8.2	9.4	-1.5
Metals and metal products (27, 28)	7.2	2.5	0.7
Machinery and equipment other than transport equipment (29,30,31,32)	5.7	1.0	4.9
Motor vehicles, transport equipment (34, 35)	3.0	6.3	0.5
Other manufacturing industries (33, 36) (incl. furniture, jewellery, gem cutting)		8.9	13.1 0.8
Total manufacturing	100	96	-36.9

Notes: *Figures given in brackets are the National Industrial Classification (NIC) 1998 codes of the corresponding industries.*

Source: *Estimates based on the National Sample Survey Reports on Employment and Unemployment, 1999-2000, 2004-05 and 2009-10. For the complete reference list and other details, see Thomas (2012).*

Table 4 : Important as a Proportion of Domestic Output : Machinery and Transport Equipment in India, Selected Years

Year	Imports as a proportion of domestic output
1993-94	27.5
1990-00	22.3
2001-02	26.0
2002-03	30.1
2003-04	34.2
2004-05	31.1
2005-06	41.8
2006-07	43.6
2007-08	50.4
2008-09	50.5
2009-10	40.7

11.9 LABOUR LAW RIGIDITY AS AN EXPLANATION FOR JOBLESS GROWTH

As noted earlier, several experts have argued that India's labour market is rigid and this has resulted in the slow growth of manufacturing employment in the country (Fallon and Lucas 1993; Besley and Burgess 2004). These authors have attributed labour market rigidity in India mainly to the Industrial Disputes Act (IDA) 1947 and its amendments in 1972, 1976 and 1982. With the 1976 amendment to the IDA, industrial establishments in India employing 300 workers or more were required to obtain government permission to retrench workers or close factories. The 1982 amendment made this requirement applicable to establishments employing 100 or more workers.

It is widely agreed that the multiplicity of labour laws in India has indeed created difficulties for employers (Papola and Pais 2007). At the same time, however, there are a number of reasons to question the arguments that link India's jobless growth almost exclusively to labour law rigidity:

1. The IDA applies only to a small proportion of India's workforce 2.6 per cent of the total workforce and 5.7 per cent of all hired workers in India. As is well known, more than 90 percent of India's working population, who work in the unorganized or informal sector, are not protected by any labour regulations and

do not receive any social security benefits.

2. The stagnation in employment growth in India's factory sector during the 1980s, which triggered the academic debate on this subject, occurred only in a selected number of industries and regions. Massive numbers of factory jobs were lost during the 1980s in the textile industry in Maharashtra and Gujarat, and in the jute industry in West Bengal. More than labour regulations, the structural problems in textile and jute industries led to these job losses. On the other hand, significant number of new jobs were added during the 1980s itself in many other industries - notably in the chemical industry - and in other regions - notably in Tamil Nadu (Thomas 2002; Thomas 2011b).

3. The trends in factory employment in India indicate that the country's labour market has, indeed, become flexible during the post- 1991 years. To illustrate: 1.5 million new organized-sector manufacturing jobs were added in India during the first half of the 1990s, a period of fast growth of the manufacturing value added products sector. However, almost a million organized- sector manufacturing jobs were lost between 1996-97 and 2001-02, a period of industrial recession. Almost all two-digit industries within the factory sector lost jobs during this period. As noted earlier, the growth of the factory sector employment in India revived after 2002-03.

Annual Survey of Industries (ASI) data indicate that, in India's factory sector, labour productivity or value added by a worker has been much above wages paid to a worker, and that the gap between the two has been rising rapidly since the 1990s. The above-discussed trends, which actually point to increased flexibility in India's labour market, can be explained by a number of factors. India's labour movements have been weakening since the 1980s. The number of industrial disputes in the country declined sharply since the 1990s. At the same time, the implementation of labour regulations in the country has had a particularly poor record after 1991, with the Central and State governments trying to project an 'investor friendly' image for themselves. Further, there has been a gradual increase in the share of contract or informal-sector workers within the formal sector. As per the Labour Bureau statistics, the share of contract workers in India's factory sector increased from 20.4 percent in 2000-01 to 31 percent in 2007-08.

Clearly, the labour law rigidity argument to explain employment trends in India's manufacturing sector is increasingly becoming weak.

Major constraints facing Indian manufacturing

1. **Power Shortage:** The relatively poor state of energy generation and infrastructure, in the country is one of the major constrains to the growth of India's manufacturing sector. The average annual growth of power generation capacity in India decelerated from 8.6 percent during the 1980s, to 6.8 per cent during the 1990s, and to 5.7 per cent during the 2000s. Thus, the gap between the growth of power generation capacity and GDP growth kept increasing in India with each of these decades (Thomas 2011a).

2. **Availability and Cost of Credit:** There had been a decline of the share of the industrial sector as a whole in total outstanding credit: from 53.8 per cent in 1991-92 to 38.9 per cent in 2007-08. The share of the small-scale industry fell from 15 per cent to 6 per cent between these years. There was a corresponding increase in the share of personal loans, including housing loans, and professional services in total outstanding credit (see Figure 4 and Thomas 2011c).

   The National Sample Survey held in 2005-06 found that 42 per cent of all unregistered manufacturing enterprises in the country identified shortage of capital as their major growth constraint. It was also noted that, in 2005-06, only 3.6 per cent of all unregistered manufacturing enterprises received loans from institutional sources, while 92.2 per cent of them did not receive any financial assistance. In India, there has been a revival of the share of the outstanding bank credit received by the industrial sector after 2007. This share rose from 38.9 percent in 2007-08 to 45.8 percent in 2011-12. However, vernally the entire increase has been in the bank credit received by medium and large-scale industries. On the contrary, the share of the outstanding bank credit received by small-scale industries remains stagnant at 6 percent (see Table 3). Small and micro enterprises found it difficult to obtain credit, and they also had to pay higher rates of interest, during periods of economic slowdown. Thus, ironically, small and micro enterprises were being denied credit during the very periods in which they needed it the most (Thomas 2009).

3. **Fluctuations in Exchange Rate and raw material prices:** Another important constraint to the growth of micro and small industries has been the fluctuations in exchange rate and raw material prices. The Indian Rupee appreciated sharply against the US Dollar during 2007-08. Export-oriented industries such as textiles, garments, leather and engineering suffered due to Rupee appreciation as it led to a decline in their export demand. However with the onset of the global financial crisis, Indian Rupee depreciated equally sharply. Thus, while the rupee dollar exchange rate was at the level of Rs39-40 a dollar between May 2007 and April 2008, this rate fell to Rs48.6 a dollar by October 2008. Despite the Rupee depreciation, Indian exporters did not benefit much because the import by Western countries remained low. Another reason was that many exporters had already entered into contracts in forward exchange markets, at exchange rates prior to the Rupee depreciation. Imports and foreign currency loans became costlier with the currency depreciation (Thomas 2009).

4. **Increasing import intensity:** As noted earlier, the industries that grew at relatively fast rates in India during the 2000s with respect to value addition in the organized sector include motor vehicles and transport equipment and machinery equipment and instruments. On the other hand, these very industries have performed rather poorly in the unorganized sector during the same decade. For instance, the net increase in employment in motor vehicles and transport equipment was 630,000 between 1999-2000 and 2004-05, but it declined to 50,000 only between 2004- 05 and 2009- 10. Such a contrasting performance by these industries in the organized and unorganized sectors is, it appears, linked to their import intensity.

Imports, as a proportion of the domestic output of machinery and transport equipment industries combined, kept increasing though the 2000s. The increase has been particularly sharp after the mid-2000s. Thus, this proportion was 26 per cent in 2001-02, 34.2per cent in 2003-04, 41.8 per cent in 2005-06, and 50.5 per cent in 2008-09 (see Table 4). Such a rapid growth in the share of imports indicates declining prospects for some of the ancillaries and components manufactured within the country. Small-scale, unregistered units that manufacture these ancillaries and components suffer even as the bigger organized industries continue their fast growth.

Table 3

78 ALTERNATIVE ECONOMIC SURVEY, INDIA, 2012-13

Table 3: Share of Industry in Total Outstanding Non-food Bank Credit in India, Selected Years

Year	Small-scale industry	Medium & large industry	Industry, Total
1991-92	15.0	38.8	53.8
1997-98	15.1	40.8	55.9
1999-00	14.1	39.3	53.4
2000-01	13.0	37.9	50.9
2001-02	11.8	35.7	47.5
2002-03	9.7	37.9	47.6
2004-05	7.5	35.2	42.7
2005-06	6.5	32.7	39.2
2007-08	6.0	32.9	38.9
2008-09	6.5	34.0	40.5
2009-10	6.8	36.4	43.2
2010-11	6.2	37.9	44.1
2011-12	6.0	39.8	45.8

Source: Handbook of Statistics on the Indian Economy, Reserve Bank of India.

11.10 SUMMARY

During the 2000s, the growth record of manufacturing employment in the unorganized sector was distinctly different from that in the organized sector. Some segments of India's organized manufacturing, mainly the capital-intensive and skill- intensive industries such as automobile production have been performing well during the 2000s. On the other hand, the unorganized sector, which employs the majority of the country's manufacturing workforce, has significantly lost jobs during the second half of the 2000s. Between 2004-05 and 2009-10, total (organized and unorganized combined) manufacturing sector employment in India declined by 3.7 million, even as the organized-sector manufacturing employment in the country registered an increase of 3.1 million. India's rural economy has been in distress because of the low productivity and slow growth of the agricultural sector. With the relatively small size and the jobless nature of growth of the manufacturing sector, there has been a crisis in recent times with respect to the absorption of India's large labour reserves. A small minority of India's workers find employment in some of the fast-growing sectors such as finance, IT (information technology) and the auto industry. However, the overwhelming majority of Indians depend on low value-adding economic activities in the informal sector for their livelihood. Such a situation creates a 'vicious' cycle. In India, the low rate of employment generation in the economy is a major hurdle to achieving progress in social and human development. At the same time, slow employment creation is also a hindrance to the growth of demand for mass consumption goods, which in turn constrain the growth of the industrial sector. It is clear that India cannot ensure equitable and inclusive economic growth by relying on the services sector alone. Rapid expansion of manufacturing activities, particularly in the rural areas, will be a necessary step to create better jobs and living conditions to millions of poor Indians.

11.11 QUESTIONS

Q.1 Discuss the Pre-reform Industrialization Paradigm.

Q.2 State and explain the new economic policy.

Q.3 Write a note on Indian manufacturing 'Jobless' growth during the 2000's

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OBJECTIVES AND STRATEGY OF ECONOMIC PLANNING IN INDIAN

Structure

12.1 OBJECTIVE

After going through this lesson, you will be able to :

- Explain the main objectives of economic planning in India.
- Explain the strategy of economic plans in a detailed manner.

12.2 INTRODUCTION

Economic planning is the making of major economic decisions what and how is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole. In an economy like India, the basis socio-economic problems like poverty, unemployment, stagnation in agricultural and industrial and inequality in the distribution of income and wealth can hardly be solved within the framework of an unplanned economy planning in required to remove these basis maladies.

12.2 OBJECTIVES OF ECONOMIC PLANNING

The long-term objectives of economic planning, as spelt out in various Plan documents are as follows:

(1) economic growth, (2) self-reliance, (3) removal of unemployment, (4) reduction in income inequalities, (5) elimination of poverty, (6) modernization, and (7) inclusiveness and sustainability of growth. Some of these objectives were elaborately discussed in the Second and Third Five Year Plans. In the subsequent plans, they were simply reiterated. Various plans, however, did not place equal emphasis on these objectives. Whereas earlier plans laid stress on rapid economic growth more than any other objective, the Fifth and Sixth plans attached great importance to self-reliance, generation of employment and removal of poverty. In the Seventh plan, modernization was stressed. The Eleventh Plan focused on inclusiveness of growth' while the Twelfth Plan talks of inclusiveness and sustainability of growth'. However, the government which assumed office in June 1991 virtually abandoned the long-term objectives of economic planning. Its entire concern was to implement a programme of macroeconomic stabilization through fiscal correction

1) ECONOMIC GROWTH

Economic growth has always remained in focus as the main objective of Indian Five Year plans. Even when some other objectives were stated emphatically in some Five Year Plans, the objective of growth retained its pre-eminent position. The gains of economic growth would percolate downwards and thus inequalities would decline and poverty problem would automatically be solved. High priority to economic growth in Indian plans look Justified, particularly when we view it in the context of long period of stagnation in the nineteenth and early twentieth century. The economy of the country had received severe jolt under the British on account of massive drain of wealth from India. In this period while the European countries developed, India suffered under development. Therefore, once this country got Independence, the unequivocal choice of the decision-makers was for economic growth.

The Earlier Phase: 1951 to 1980. The era of economic planning ushered in 1951. The First Five Year Plan covering the period from 1951 to 1956 had a target of 2.1 per cent per annum increase in national income. This target, in fact, was very modest and even with its realization there could be no increase in per capita national income. The performance of the plan, however, was better and over the five-year period national income recorded a 4.4 per cent per annum increase. The Second Five Year Plan envisaged a target of 4.5 per cent per annum increase in national income. From a quantitative point of view this target was not significantly higher than the actual growth performance during the First Plan period. The Second Plan was, however, different from the First Plan in terms of its objectives. Its basic framework was based on the Mahalanobis strategy of development, which gave the highest priority to heavy industries. The implementation of this policy involved rapid development of the public sector. The actual growth rare during the Second Plan, however, turned out to be a little lower than the targeted rate. The national income rose at the rate of 4.0 per cent per annum.

The Third Plan had aimed at securing an increase in national income of 5.6 per cent per annum. The planners had the confidence that the pattern of investment designed in the Third Plan could sustain this rate of growth during the subsequent plan periods as well. The highest priority in this plan was accorded to agriculture. After the experiences of the first two plans, more particularly of the Second Plan, it had become evidently clear to the planners that among the factors determining the rate of economic growth in this country, agriculture had a unique place. Hence, the Third Plan put special emphasis on raising the agricultural output. Further, like the Second Plan, from the point of view of overall economic development, it attached great importance to growth of steel, machine tools and heavy engineering industries on the one hand and energy sources on the other. Thus, in totality the development strategy of the Third Plan was basically the same as that of the Second Plan. During the Third Plan period, the national income rose only at a modest rate of 2.6 per cent per annum and thus there was only a marginal increase in national income per capita. In brief, from the point of view of economic growth, the Third Plan was a miserable flop, and as a consequence, the economy found itself stranded in deep waters. Only bold and vigorous planning could have saved the country. However, contrary to the need of the hour, long-term planning was suspended for full three years. The Fourth Plan thus started in 1969 instead of 1966 which was the scheduled year for its beginning.

The emphasis in the Fourth Plan was on growth with stability. In India's economy, two factors, viz, fluctuations in agricultural production and uncertainties about foreign assistance cause greater instabilities. Hence, the Fourth Plan laid stress not only on various programmes for raising the agricultural output, but also on creating buffer stocks of foodgrains so as to ensure regular supply of food. The Planning Commission was convinced that it was a necessary measure for the stability in general price level. In order to eliminate uncertainties in respect of resources for the plan, it was also felt that the dependence on foreign aid was to be minimized. The Planning Commission had visualized the possibilities of accelerating the rate of growth in an atmosphere free from instability and uncertainties. With this perspective the planners had contemplated a 5.7 per cent per annum increase in national income during the Fourth Plan period. In reality nothing of the sort happened and the growth rate remained stuck at 3.1 per cent per annum. Instability could not be eliminated. In addition, some new bottlenecks developed - the most notable being in the field of energy and transport. These factors together prevented growth rate from picking up.

In the Draft Fifth Five Year Plan, the target laid down for the increase in GDP was 5.5 per cent per annum, which was considerably higher than what was achieved during the past two decades. The Fifth Five Year Plan in its final form was different from the

Draft Plan in a number of respects. The Final Plan aimed at only 4.4 per cent per annum increase in GDP as against the target of 5.5 per cent per annum set in the Draft Plan. For the realization of this objective, the principal emphasis was on raising the investment rate apart from pushing up the productivity level. During the Fifth Plan period, the national income recorded a totally erratic growth. The large fluctuations in the rate of growth were mainly on account of the fluctuations in agricultural production. The rate of increase in GDP during the 1974-79 period was 4.9 per cent per annum which looks quite satisfactory when we compare it with the performance of the economy during the earlier plan periods. However, the Fifth Plan failed to create any solid foundation on the basis of which subsequent growth process could be sustained. Thus, in 1979-80, the economy suffered a major setback and the GDP declined by 6.0 per cent.

When we consider the trend growth rate during the first three decades of economic planning, we note that at best it was extremely modest. In this period, GDP had increased at the rate of 3.2 per cert per annum.

The Later Phase: 1981 to 2010. In the later phase, five plans have been completed. The average GDP growth rate of about 6.6 per cent in this period is an improvement over the growth rate of 3.2 per cent per annum during the previous three decades. We shall now analyse the performance of the Indian economy on growth front plan wise in the later phase.

The Sixth Five Year Plan registered 5.4 per cent per annum increase in GDP against the targeted GDP growth rate of 5.2 per cent per annum. The Plan had proposed to pay particular attention to certain aspects of the economy for achieving the growth target. These were: (1) improving the efficiency level of existing capital stock utilization, (2) raising the investment rare, (3) changing the investment pattern to make it more rational from the point of view of growth, and (4) keeping deficit in balance of payments within certain limits so as to prevent emergence of foreign exchange crisis. The actual growth rate exceeded the target set for the Sixth Plan. This was mainly due to good agricultural performance and a rapid growth in the services sector. Agricultural output during the plan period increased at the rate of 4.3 per cent per annum against the target rate of agricultural growth of 3.8 per cent per annum. The level of investment is generally considered a major determinant of growth and, in this, the Sixth Plan expectations were fulfilled. However, the saving rate failed to reach the target. The shortfall in the aggregate saving was largely due to the failure of the public sector to generate the desired surplus.

The Seventh Plan aimed at 5.0 per cent per annum increase in GDP. This rate was a little higher than the rate of growth realized during the past decade. According to the Planning Commission, this rate was also in line with the growth rate achieved in the Sixth Plan. However, considering the resource constraint and the actual performance of the economy during the first three years of the plan, realization of this target did not look very easy. In the first three years of the Seventh Plan, GDP had increased at a modest rate of 3.8 per cent per annum. However, during 1988-89 and 1989-90 due to bumper harvests the growth rate picked up sharply and the average annual increase in GDP during the whole of the Seventh Plan period turned out to be 5.6 per cent per annum against the target of 5.0 per cent per annum. Thus, the overall rate of growth exceeded the target. In isolation, this may look quite impressive. However, when we examine as to how the overall rate of growth of 5.5 per cent per annum was realized during the Seventh Plan period, the situation appears to be less encouraging.

The country did not register a steady rate of growth during the Seventh Plan period. There were marked variations in the rate of growth registered in different years of the plan. The growth process of the 1980s, in spite of an improvement in the average GDP growth rate has been widely criticized. One major criticism of this growth process which involved high fiscal deficit was that it was unsustainable as in put pressure on balance of payments and also led to inflation. Another major criticism was that it involved inefficient utilisation of resources, The year of 1990-91 was not bad in terms of growth though in this year the economic crisis which deepened in 1991-92 had already begun. In 1990-91, GDP registered 3.4 per cent increase. This could not be sustained in 1991-92 as in this year adverse effects of the economic crisis arrested the overall growth process. The rate of growth of GDP in this year was only 0.8 per cent and both agricultural and industrial sectors registered negative growth rates of 2.8 and 0.1 per cent respectively.

The Eighth Plan began in a difficult situation. In the first two years of this Plan, the rate of increase in GDP was rather modest 5.5 per cent per annum. However, in the remaining three years annual rate of increase in GDP was 7.0 per cent or more with the result that the average rate of increase in GDP in the Eighth Plan turned out to be 6.7 per cent per annum higher than the target of 5.6 per cent per annum. This satisfactory performance on the growth front made proponents of economic liberalization in the country unduly optimistic. In the official circles also, the decision-makers contended that the liberalization package had put the Indian economy on the high growth path.

However, the performance of the economy during the Ninth Plan turned out to be poor and proved the prophets of liberalization wrong. As against the target of 6.5 per cent per annum increase in GDP, the actual increase turned out to be only 5.3 per cent per annum. The Planning Commission has put the blame for this poor performance on low agricultural growth in three out of five years, reduced demand for industrial goods and the consequent reduction in the growth rate of the industrial sector, and slowdown in the world economy that adversely affected the level of exports. While the Tenth Five Year Plan aimed at achieving an annual average growth rate of 8 per cent over the period 2002 to 2007, the actual rate of GDP growth in this plan was 7.8 per cent per annum. If one leaves out the first year of the plan (2002-03), India's GDP in the four years ending 2006-07 grew annually at 8.7 per cent making it the world's fastest growing economy after China. This generated a lot of euphoria in official circles and the government claimed that the economy has moved decisively to a higher growth phase. This emboldened the government to fix 9.0 per cent per annum economic growth target for the Eleventh Plan. The first year of this Plan (2007-08) registered a rate of growth of 9.3 per cent which fell to 6.8 per cent in 2008- 09 due to economic slowdown caused by global recession. Growth picked up to 8.0 per cent in 2009-10 and further to 8.5 per cent in 2010-ll. However, it fell to 6.2 per cent in 2011-12. The average rate of growth of GDP in the Eleventh thus comes out to be 7.9 per cent. The rate of growth of GDP fell to 5.0 per cent in 2012-13 - the lowest in the last one decade.

2) SELF-RELIANCE

About six decades ago on the eve of the First Plan, India was dependent on foreign countries at least in three respects. First, despite the fact that Indian economy was essentially agrarian, the output of foodgrains was not adequate and the country imported big quantities of foodgrains from the USA and some other countries. Second, on account of virtual non-existence of basic industries, transport equipment, machine tools, heavy engineering goods, electrical plant and machines and many other capital goods had to be acquired from developed countries.

Third, saving rate being very low, foreign aid had to be obtained in order to step up the investment rate in the country,

No one disputes that trade between two equal partners on purely commercial terms is beneficial to both. This may not, however, be correct in respect of underdeveloped countries trading with developed countries from an unequal bargaining position. It has been observed in many cases that developed countries while supplying essential commodities like foodgrains, machinery and other capital equipment to underdeveloped countries attempt to take full advantage of their strong bargaining position and extort exorbitant prices for their products. Often exports of these and other essential goods are used as political weapons to blackmail the Third World countries. Therefore, if some underdeveloped country seriously desires to keep its growth activity free from political pressures of other countries, it has no choice but to become completely self-reliant in food and capital equipment, Further, it has also to minimize its dependence in respect of aid from other counties and the institutions like the IMF and the World Bank.

Broadly these were the reasons why self-reliance was adopted as a major objective of economic planning in this country. The emphasis on self-reliance was not much in the first two plans. In the Third Plan for the first time it was stated that the country would endeavor to become self-reliant over a decade or so. The concept of self-reliance adopted in the Plan was, however, narrow. Self-reliance was defined merely as overcoming the need for external assistance. In the Fourth Plan, the objective of self-refinance was stated in a concrete form. The Plan not only reiterated the government’s commitment to reduce its dependence on foreign aid and but also decided to do away with concessional imports of foodgrains from the USA under PL 480. The country made progress along the expected lines during the first three years of the Plan. However, in the fourth year of the Plan, the country faced a deterioration in its balance of payments position mainly due to large imports of foodgrains necessitated by the drought and sharp rise in the international prices of imports.

Under the Fifth Plan for tackling the balance of payments problem, two pronged strategy was adopted in the form of export promotion and import squeeze. This policy and unexpectedly large private remittances considerably improved the balance of payments position. However, during the 1980s liberalization' in the foreign sector led to severe strains on the balance of payments and the country's foreign exchange reserves declined to $ 2,236 million in March 1991. The government thus resorted to economic reforms. It is now hoped in the official circles that with the correction of macroeconomic imbalances and structural reforms, the economy in the future would tread on a high growth path and would ultimately realize the goal of self-reliance. But some independent analysts have serious doubts about the claims of the government.

The country is now almost self-sufficient in food. Second, with the growth of iron and steel, machine tools and heavy engineering industries, this country has made considerable advancement towards self-reliance in capital equipment. In totality, however, the goal of self-reliance has proved to be elusive. International prices of petroleum products are highly volatile and any unexpected spurt in them can cause severe strain on the country's balance of payments. Also, because of the hot money inflows the country has now become extremely vulnerable to the designs of global finance capital

3) REMOVAL OF UNEMPLOYMENT

Unemployment problem requires an immediate solution for the elimination of poverty. It is observed that with the rising number of unemployed, poverty expands. Removal of unemployment has thus been mentioned as one of the objectives of economic planning in all the Five Year Plans, but it never got a high priority. It also did not set a target date "by when any able bodied person who wants to work and make an honest living can be assured of a job that would offer him at least a minimum subsistence." This explains why unemployment has not decreased over the years. However, the Planning Commission stated in the Eighth Plan document that employment is to be treated as a direct focal point of policy.

The approach of the Planning Commission till recently has been of not seeing the question of employment generation separately from investment programmes. It was believed that as investment increased employment would also grow. The main weakness of this approach is that it ignores the fact-that an increase in investment does not automatically create larger employment. For the growth of employment besides an increase in investment, the choice of techniques should also be correct.

Creation of Fresh Jobs in an inadequate number. How incorrect was the approach of the government respect of employment in the earlier phase of economic planning is evidently clear from the fact that it did not even attempt to create as many jobs as were required by the fresh labour force coming to the labour market, Consequently, at the end of each plan period the unemployment backlog was greater than at the beginning of the plan. For example, the backlog of usual status unemployment on the eve of the Sixth Plan was estimated around 12 million (based on 32nd Round of the NSS). The net addition to the labour force in the age group 5+ during 1980-85 was estimated to be around 34 million. These two together indicated the overall magnitude of employment to be generated during the Sixth Plan period. It is clear that employment could not be generated on this scale during 1980-85, and as a consequence the backlog of usual status unemployment on the eve of the Seventh Plan was around 13.9 million (based on 32nd round of the NSS). According to the Seventh Plan, net addition to the labour force in the age group 5+ during 1986-90 was expected to be around 39.38 million. This along with the unemployment backlog indicated the magnitude of employment that was to be generated in the Seventh Plan for wiping out unemployment. However, employment could not be generated on this scale, and as a result backlog of unemployment in April 1990 was 13 million in terms of usual status and 20 million in terms of daily status. According to the Planning Commission, the proportion of unemployed and underemployed to labour force was 2.02 per cent and 8.43 per cent respectively in 1993-94.

The results of the 61st round of NSSO for 2004-05 reveal a somewhat mixed picture of employment growth. During 1999-2000 to 2004-05, about 47 million employment opportunities were cleared compared to only 24 million during 1993-94 to 1999-2000.Further, employment growth accelerated from 1.25 per cent per annum during the period 1993-94 to 1999-2000 to 2.62 per cent per annum during the period 1999-2000 to 2004-05 The annual increase in work opportunities increased from 4.0 million per year during 1993-94 to 1999-2000 to 9.3 million per year during 1999-2000 to 2004-05. However, the pace of growth of labour force in the second period at 2.84 per cent per annum exceeded the growth in workforce (employment) of 2.62 per cent per annum with the result that the unemployment rate increased from 7.3 per cent in 1999 2000 to 8.3 per cent in 2004-05.

The 64th Round (2007-08) of National Sample Survey Organization presents information on employment- unemployment over the period 2004-05 to 2007-08. According to this Round, the annual employment growth over the period 2004-05 to 2007-08 was only 0.8 million per year—considerably less than the total increase in the labour force of around 8 million. This is despite the fact that the economy recorded a high rate of growth of around 8 to 9 per cent per annum in these years. This shows that the growth has been jobless. The usual status unemployment rate for the period was found to be 2.8 per cent (the 'usual status' approach looked at a person's employment status over the past six months.)

Latest information on unemployment is available for the year 2009- l0 from the 66th Round of NSSO. According to 66th Round, unemployment rate according to UPSS (usual principal and subsidiary status) was 2.0 per cent for the year 2009-10 while it was 3.6 per cent according to CWS (current weekly status) and 6.6 per cent according to CDS (current daily status). The higher unemployment rate according to the CDS approach compared to weekly status and usual status approaches indicates a high degree of intermittent unemployment. Interestingly urban unemployment was higher under both the UPSS and CWS but rural unemployment was higher under the CDS approach. According to Economic Survey, 2011-12 "this possibly indicates higher intermittent or seasonal unemployment in rural than urban areas, something that employment generation schemes, like MGNREGA need to pay attention to.

4) REDUCTION IN INCOME INEQUALITIES

Reduction in income inequalities has been mentioned as one of the objectives of economic planning in India. However, in terms of priority it always got a very law place. The Planning Commission had spelt out its approach in respect of income inequalities in the Fourth Plan. In its opinion, fiscal measures at best can reduce disposable income at the top and thus their importance for eliminating income inequalities is limited. It stressed the need for raising the living standards of the poor by accelerating the pace of growth on the assumption that the gains of development will percolate downward. Interestingly in the Fifth Plan though removal of poverty was mentioned as a major objective, only a passing reference was made to the problem of income inequalities. No doubt, presence of widespread poverty is a stigma on Indian society and no possible effort should be spared to remove it. But it is difficult to follow why only a passing reference was made to the problem of income inequalities since they are too large to be overlooked. The Sixth Plan reiterated the need for removal of poverty, but did not spell out concrete measures to be followed for eliminating income inequalities. The Plan document simply hoped that fiscal policy, industrial licensing, monopoly control measures and additional employment opportunities to be created during the Plan period should be able to reduce disparities in income distribution. The Seventh Plan did not make even a passing reference to this objective. All this shows that objective of reduction in income inequalities was accorded a very low priority in economic planning. The neglect of this objective arose out of the conviction of the planner that economic growth will automatically reduce income inequalities. Since the Eighth Plan like the Seventh Plan made no reference to the objective of reduction in income inequalities, it would not be wrong to infer that it has now been completely abandoned by the government.

Failure on Income Distribution Front:- "Income Distribution in India" bring out the complete failure of the government on the income redistribution front. While the share of the top 20 per cent in consumption expenditure was as high as 45.3 per cent in 2005, that of the lowest 20 per cent was only 8.1 per cent, Income inequalities have increased further over the five year period 2004-05to 2009-10, which is also the period in which the Indian economy registered rapid growth. Rise in inequalities is clear from the fact that the Gini coefficient increased from 0.27 in 2004-05 to 0.28 in 2009-10 in rural areas and from 0.35 in 2004-05 to 0.39 in urban areas. Inequalities worsened in the rural areas of l0 States and urban areas of 18 States. A report on income inequality in different countries released by OECD in December 2011 has pointed out that inequalities in earnings in India have doubled over the past two decades (which is the period of economy; reforms) making it one of the worst performers on this count among emerging economies. According to the Report, the top 10 per cent of wage earners make 12 times more than the bottom 10 per cent, compared to six times 20 years also. The massive income inequalities that presently exist in the Indian economy are further highlighted by the factor India's richest 100 had a combined networth of as high as Rs 12,06,375 crores in 2011 which was almost 17 per cent of India's GDP of Rs 71,57,412 crores in 2010-11. In other words, the networth of 100 richest Indians is as high as one-sixth of India's GDP.

The basic cause of income inequalities in the countryside is inequality in the ownership of agricultural land. Agricultural labourers do not possess any land and belong to the poorest strata of the society. Small farmers with little land in their possession produce only that much which is hardly enough for subsistence living. In contrast, incomes of big farmers are not only high, but are also steadily rising. Apart from the economic surplus they appropriate, they manage to get credit on easy terms from cooperative credit societies, rural banks, etc. for investment purposes. This had enabled them in recent past to introduce productivity raising technology in agriculture, as a consequence of which their incomes have registered a steep rise. However, Indian plans with their main focus on growth have done little to prevent these continuously growing income inequalities in rural areas.

From rapid growing assets of the big business houses, it is obvious that income inequalities have been increasing in urban areas as well. Anti-monopoly measures can reduce inequalities in income and wealth, but from this point of view, the Monopolies and Restrictive Trade Practices Act (MRTP Act) has always been found rather ineffective. The role of fiscal policy from the point of view of redistribution of income is not very clear. Contrary to the general belief that India's tax structure is progressive, Amaresh Bagchi has argued that tax structure in India is regressive and it has encouraged further concentration of economic power.

5) ELIMINATION OF POVERTY

The removal of poverty as an objective of economic planning was mentioned explicitly for the first time in the Draft Fifth Five Year Plan. During the first two decades of planned development, that is, until the completion of the Fourth Plan the poor had hardly benefited from the plans and their life was as wretched in the early 1970s as at the time of Independence. This happened largely due to the defective approach of economic planning which on the one hand encouraged concentration of economic power, and on the other resulted in inflation which had serious repercussions on poor.

Strategy to Tackle Poverty Problem: Until the late 1970s decision-makers in the government and the Planning Commission were of the view that the trickle down effects of growth could alleviate poverty in the country in the coming years. It was thus stated in Draft Five Year Plan 1978-83, "Without any redistribution the poverty percentage should fall from 46 per cent at present to 27 per cent after 10 years if the assumed rates of growth materialized. The government soon recognized this fact. The Planning Commission in the Sixth Plan document thus stated. The incidence of poverty in the country is still very high. Thus, determined measures are necessary to combat poverty. A substantial increase in the overall rate of growth of the economy will no doubt create favourable conditions for a reduction in poverty and unemployment. However, in the light of past experience it will not be realistic to rely solely on the growth process to find a solution to the problem. Specific policy measures will be needed not only to influence the composition of output in favour of mass consumption goods, but also to ensure a more even regional and class distribution of output, paying special attention to stimulating growth in more backward regions. In addition, the ongoing poverty eradication programmes aimed at the specified target groups of population will have to be improved and enlarged with regard to both content and coverage.

The Planning Commission had also claimed that the process of economic growth and anti-poverty programmes had brought down the proportion of the population below the poverty line from 48.3 per cent in 1977-78 to 29.9 per cent in 1987-88. According to the estimate of Minhas, Jain and tendulkar, the proportion of population below the poverty line was as high as 45.85 pet cert in 1987-88. In the mid-nineties, the Planning Commission adopted the Expert Group Methodology to present the estimates of poverty in India. According to these estimates, the proportion of population below the poverty line was 40.7 per cent in 1992-93 and 36.0 per cent in 1993-94.

In its eagerness to prove that the liberalization measures have significantly reduced the incidence of poverty in the country, the Planning Commission came out with estimates of poverty on the basis of questionable results of the 55th Round of the NSSO. These estimate show that there has been a steep fall in the incidence of poverty since 1993-94, as on the basis of 30 day recall only 27.1 per cent of the rural population and 23.6 per cent of the urban population was below the poverty line in 1999-2000. The overall incidence of poverty was 26.1 per cent. However, many critics have pointed out that these reduced estimates of poverty were obtained by adopting a wrong methodology. In view of the confusion generated by various claim, the Planning Commission constituted an Expert Group under the chairmanship of Suresh Tendulkar to examine the issue in entirety and suggest a new poverty line and estimates. The Tendulkar Committee has estimated the new all-India poverty line for the year 2004-05 for rural areas at Rs 446.68 per capita per month and for urban areas at Rs 578.80 per capita per month. On this basis, 41.8 per cent of the rural population and 25.7 per cent of the urban population was below the poverty line in 2004-05. For the country as whole, 37.2 per cent of the population was below the poverty line in 2004-05.

On March 19, 2012,the planning Commission released the estimates of poverty for the year 2009-10 computed from the 66th Round NSS (2009-10) data on Household Consumer Expenditure Survey. The poverty line was defined as Rs 22.40 per capita per day in rural areas and Rs 28.60 per capita per day in urban areas (this translates to Rs 672.80 per capita per month in rural areas and Rs 859.60 per capita per month in urban areas). On this basis 29.8per cent of the population was below the poverty line in 2009-10 (33.8 per cent in rural areas and 20.9 per cent in urban areas.

A much better indicator to determine poverty vis-à-vis the poverty line is the concept of multidimensional poverty. This concept brings out the true prevalence of poverty in a country. Calculation of MPI (multidimensional poverty index) shows that as much as 53.7 per cent of India's population (i.e. more than 61 crore people) suffer from multidimensional poverty.

6) MODERNISATION

Indian planners have always recognized the role of science and technology in the country's development. However, until the Sixth Five year plan modernization was never on the agenda of any plan. In the Sixth plan for the first time, the objective of modernization was explicitly mentioned. While spelling out the concept of modernization the planners gave it a very wide meaning. The plan document stated. "The term modernization connotes a variety of structural and institutional changes in the framework of economic activity." It thus implied a "shift in the sectoral composition of production, diversification of activities, an advancement of technology and institutional innovation" so as to transform "a feudal and colonial economy into a modern and independent economy. If one accept this concept of modernization, then this is also to be admitted that during the whole of the planning period, India did make advance on the modernization path though the progress might not have been spectacular. Over the five and a half decades of planning, the composition of national income has changed steadily. The share of manufacturing, mining, construction and productive infrastructure has increased from about 20 per cent in the early fifties to about 30 per cent in the late-1980s. In the industrial sector, considerable success has been achieved from the point of view of diversification. Today India's capabilities in technical know-how are far greater than those in the early 1950s. Even in the institutional framework this country's achievements are not small. For example, setting up of development banks for industry and agriculture, innovation of Regional Rural Banks and extension of co-operative credit to the remotest interiors of the country have radically changed the institutional framework of credit.

In the Seventh Plan, the concept of modernization was narrowed down. For the planners now modernization refers primarily to technological advances. In agriculture it implies increased use of fertilizers and HYV seeds, extension of irrigation facilities, improvement in water management, change in the pattern of energy use and greater mechanization.

It is hoped that all these measures in course of time will spread green revolution to new areas. In industry several major technological advances have taken place in the world "of which the more important flow from three sources: (a) the application of computers and electronics to production process: (D) improvements in fuel efficiency of prime movers and other industrial equipment; and (c) the use of new materials." During the Sixth plan period a beginning was made to introduce these changes in the economy. No one will dispute that these measures will improve efficiency and thereby accelerate economic growth. But there is a risk in indiscriminate modernization. In a labour surplus economy like the one we have in this country, a steadily increasing automation in industries can force lots of industrial workers to lose their jobs. Similarly, in the countryside, mechanized farm operations can worsen employment situation among the agricultural workers. Unfortunately, the planners have refused to recognize that at this juncture in India a real conflict exists between the objective of modernization and the objectives of unemployment and poverty removal.

7) INCLUSIVENESS AND SUSTAINABILITY OF GROWTH

The Eleventh Plan for the first time stated the objectives of inclusiveness and sustainability of growth. The major dimensions of inclusive development are poverty allocation, employment generation, health, education, women's empowerment and social welfare. It includes small inclusion alongwith financial inclusion and, in most cases, the socially excluded are also financially excluded. Many segments of the population like landless agricultural laborers, marginal farmers, scheduled castes (SCs), scheduled tribes (STs) and other backward classes (OBCs) continue to suffer social and financial exclusion. The Eleventh plan sought to extend the benefits of growth to these excluded sections of the population. The objective of inclusiveness is reflected in the adoption of 26 monitorable target at the national level relating to: (i) income and poverty, (ii) education, (iii,) health, (iv,) women and children, (v) infrastructure and (vi) environment. The plan also focused on the importance of a clear commitment to pursue a development process which is environmentally sustainable. It emphasized that natural resources of the country such as water and land are limited and their per capita availability is actually diminishing because of rising population and also because of irrational exploitation of common pool resources. It correctly stated that unless environment protection is brought to the centre stage of policy formulation, what is perceived as development may actually lead to a deteriorating quality of life.

The Twelfth Plan emphasizes the following dimensions of inclusiveness: (1) inclusiveness as poverty reduction: distributional concerns have traditionally been viewed as ensuring an adequate flow of benefits to the poor and the most marginalized. This would, therefore, remain an important policy focus of the Twelfth plan (2) inclusiveness as group equality: while poor are certainly one target group, inclusiveness must also embrace the concerns of other groups like SCs, STs, OBC, minorities, the differently abled and marginalized groups. In this context, gender based issues also need to be addressed; (3) inclusiveness as regional balance, another aspect of inclusiveness relates to whether all States, and indeed all regions, are seen to benefit from the growth process. From this angle, it is necessary to identify backward areas and design specific policies for their growth: (4) focus on income inequality: inclusiveness also means greater attention to income inequality. In this context, the Plan focuses particularly on providing 'greater equality of opportunity (5) inclusiveness as empowerment: inclusiveness is not just about ensuring a broad-based flow of benefits or economic opportunities, it is also about empowerment and participation. Focus on empowerment and participation brings to the fore issues of governance, accountability and people's participation.

With increasing levels of environmental pollution around the world and the threat of climate change caused by the accumulation of carbon dioxide and other Greenhouse Gases (GHGs) in the atmosphere due to human activity, the issue of environmental sustainability has emerged as a crucial one. The Twelfth Plan rightly points out that "no development process can afford to neglect the environmental consequences of economic activity, to allow unsustainable depletion and deterioration of natural resources. The objective of environment sustainability often comes into conflict with the growth objective. A prudent policy is, therefore, required to strike a balance between these two objectives.

12.4 THE STRATEGY OF PLANNING IN INDIA

In the context of development planning, strategy refers to a basic long term policy to realize certain objectives. Resources in underdeveloped countries being scarce, development work cannot be started in all the backward sectors. Leading sectors have to be identified and all resources are to be mobilized to these sectors. This may result in a breakthrough and the economy which has stagnated for a long period may start developing. Rosenstein Rodan has rightly asserted that an economy, if it has stagnated for a long period, would not grow unless a 'big push' is given to it. The Indian economy needed exactly this kind of push when the country got Independence in 1947. At that time, both political leaders and industrialists advocated economic planning, as they knew that the economy would not grow unless an organised effort was made. Planned efforts involved a higher level of investment activity and determination of correct priorities.

12.5 STRATEGY OF INDIA'S DEVELOPMENT PLANS: THE EARLIER PHASE (MAHALANOBIS STRATEGY)

In the earlier phase of planned economic development in India, the main emphasis was on economic growth. Reduction in inequalities of income and wealth, elimination of poverty and creation of employment opportunities were also mentioned as the objectives of planning, but they were never given a high priority. There were three main aspects of the strategy of development in the earlier period:

1. Developing a sound base for initiating the process of long-term growth;
2. A high priority to industrialization when actual development began; and
3. Emphasis on development of capital goods industries against consumer goods

industries.

1. Developing a sound base for initiating the process of long-term growth. The economy, as it had emerged after Independence was in shambles. Under the circumstances, it was strategically a correct policy to direct all efforts towards solving the problem that the country faced at that time and lay down a foundation for planned development in the future. As the First Five Year Plan was formulated to achieve these objectives, the highest priority was given to overcoming the food crisis by raising the output of foodgrains and the development of infrastructure with particular emphasis on energy, means of transport and communication and irrigation facilities.

2. A high priority to industrialization. The strategy of long term planned development was spelt out in the Second Five Year Plan, The draft outline of this plan was prepared by P.C. Mahalanobis whose contribution in formulating this strategy is well known. Although in its final form the Second Plan-was somewhat different from the original draft, the strategy of development was not modified, and it guided the planning practice for more than two decades. In this strategy of planned development, the main emphasis was on industrialization. There were several reasons why Indian planners gave a high priority to industrialization.

   First, at the time of independence, the Indian economy was unbalanced. The country was industrially backward, and as such, establishment of new industries on a big scale and development of the traditional industry was an imperative necessity. Secondly, productivity of labour is the highest in manufacturing industries. Therefore, for raising national income at a fast rate there is no way out except to establish industries. Thirdly, the pressure of population on land is excessive and unless surplus work force is transferred to other sectors, agriculture's potential cannot be fully realized. Hence, development of the industrial sector is a pre-condition for agricultural development. Finally, industrialization induces development in other sectors.

3. Emphasis on development of capital goods industries. In the strategy of planned development, a very high priority was given to heavy capital goods industries. The experience of different countries has clearly shown that unless a country

develops iron and steel, heavy engineering, machine tools and heavy chemicals industries, it will fail to accelerate the pace of economic development. The dependence on foreign countries for capital equipment is a big obstacle to development. It also makes the country vulnerable to external pressures. Lacking in capital for development purposes, India at the time of Independence thus had no option but to adopt the strategy of 'unbalanced growth'. It was not possible to develop both capital and consumer goods industries. Growth of consumer goods industries and agriculture was left to market forces. This strategy has its own defects. It often leads to scarcity of essential commodities. This actually happened in the later years of the Second Five Year Plan when scarcity of food developed on account of bad harvests. In view of this experience, greater attention was given to agriculture in subsequent plans. However, consumer goods industries continued to retain a secondary place in the strategy of development. Had the consumer goods industries received a high priority, it would have meant indefinite dependence on foreign countries in respect of capital equipment.

12.6 IMPORT SUBSTITUTION

Looking at a slightly different angle, the Mahalanobis strategy of development seems to be resting on import substitution. The strategy of import substitution is based on infant industry argument. Such a strategy enables the developing countries to develop their industrial structure behind tariff walls (i.e., without a fear of competition from other countries

This strategy enabled India to substitute foreign industrial goods by domestically produced industrial goods and save foreign exchange. By imposing high import duties on foreign industrial goods, the State also earned a sizeable revenue and invested this money in programmes of economic development. Domestic producers, on the other hand, were enabled to raise the prices of their goods and thus earn a handsome profit. When this profit was reinvested, the process of industrial growth got a boost up.

However, the basic rationale of an import substitution policy is that it helped India - an underdeveloped country in building up its industrial structure- which, in turn, is a sine qua non of economic development.

Another argument for import substitution rests on the contention that an underdeveloped country's demand for industrial imports increases much more rapidly than does the foreign demand for its exports. The inability of exports to increase rapidly is due to the inability of primary exports to expand at a fast rate. Therefore to meet domestic demand of industrial products, the underdeveloped countries must set up import substituting industries. Import substitution led industrialization is also justified on the ground that it helps in solving the problem of unemployment and underemployment in the underdeveloped countries.

Related problems

There were three major problem which India was expected to face in following the above strategy of development in the earlier phase of economic planning:

1. The possibility of the scarcity of essential commodities
2. The pressing need for raising the level of saving, and
3. the problem of payments for the import of capital equipment required for setting up heavy industries.

1. The possibility of scarcity of essential commodities: When a country makes a deliberate effort to divert massive resources for the development of capital goods industries, not much resources are left for other productive activities. In this situation, there is a possibility that shortages of consumer goods develop. This was precisely the problem with the strategy of development in the earlier phase of planning. Hence, various incentives were given to cottage and. small-scale industries which generally manufacture consumer goods and require little capital. In order to avert serious food crisis, certain efforts were made to raise the production of foodgrains though initially heavy reliance was placed on imports of foodgrains. In periods of acute shortages of essential articles like foodgrains, sugar, vegetable oils and kerosene, physical controls were introduced for ensuring their fair distribution.

2. Raising the level of saving: The rate of saving was around 9 per cent of GDP at the time of Independence. No development planning was conceivable at this level of capital formation. The government was, however, committed to achieve 5 per cent per annum increase in the national income and this required adoption of various measures for raising the level of capital formation. In this regard two policy decisions deserve particular mention. First, on the completion of development projects, whatever surplus they could generate had to be utilized for investment. Second, if mobilization of adequate resources of development plans was not possible foreign capital could be invited to meet the deficiency.

3. ***Payments problem caused by the import of capital equipment***: Because India had no machine building industry in the early years of economic planning, it had no choice but to import all the capital equipment which it needed for setting up industries. This involved such a large amount of foreign exchange that this country could not hope to earn it through exports in normal course. Hence, the development strategy laid stress on export promotion efforts. Obviously the planner were aware of the limitations in this regard. Therefore, they made a provision for long- term foreign borrowings in the development strategy.

Appraisal Of The Mahalanobis Strategy Of Development

The strategy of planned development as followed in the earlier phase of planning did not receive universal approval. But the criticism of the approach made by various experts differed both in content and degree. While C.N. Vakil rejected the basic framework of the strategy, others criticized it for some minor snags in the approach or for its poor implementation. C.N. Vakil and P.R. Brahmananda had put forward an alternative approach to Indian planning at the time of the formulation of the Second Five Year Plan.

1. Missing the role of wage goods as capital. As against the Planning Commission's entire emphasis on the role fixed capital.

2. Preoccupation with self-sufficiency and thus non- warranted stress on import substituation.

3. Some other snags. The development strategy of the earlier phase had a few other snags

a. It the first phase, the strategy assumed that the current consumption needs of the people would be adequately met through 'productive capacities already available and in case some shortages developed, the problems could be overcome by introducing controls. In any case the strategy did not visualise any major problem on this front. The experience, however, proved that the complacency of the planners in this respect had no justification. Even in respect of a basic commodity like foodgrains, the development strategy did not provide as to how the supply of foodgains was to be ensured for meeting the growing demand.

b. Secondly, there was a major snag in the employment aspect of development strategy. The strategy had visualized that full employment would be attained by realizing 5 per cent annual increase in the national income. It was admitted that modern industries would not generate much employment but it was hopefully asserted that the traditional sectors meeting the demand for basic consumption goods had the capacity to absorb all the available labour force outside the modern sector. Thus the objective of additional employment was to be taken care of by the policies which were parallel to, but not an integral part of, the strategy of growth.

c. Finally, the development strategy greatly relied percolation effect of growth for reduction in income inequalities. Now it is widely admitted that economic growth, by itself may not solve or even alleviate the problem within any reasonable time period. The policy measure redistribution of existing assets proved to be ineffective.

Failure Of The Mahalanobis Strategy Of Development

The development strategy with its emphasis on heavy industries proved to be a great success in the initial phase of planned development. During the Second plan period, both saving and investment rates rose considerably and output targets were nearly achieved. Further, the country managed to develop a heavy industry complex. This could happen because the high rate of investment was matched with a high rate of agricultural production. During the Third Plan period, however, the development process ran into serious difficulties. There were several reasons for this:

1. The process of agricultural growth had slowed down, particularly because the potentiality of raising the agricultural output through extending the area

under cultivation had almost exhausted, while the demand for food continued to increase rapidly on account of rapid growth of population. This created alarming situation and the country had to import large quantities of foodgrains.

2. Large trade deficits. Massive investments in heavy industries had required large imports without a matching increase in exports.

3. The net saving rate instead of rising further slumped down and, as a result, on an average around 25 per cent of the investment had to be financed by foreign aid.

4. Income inequalities in the country had not diminished during-the planning period and the gains of development had not trickled down to reach the poorest.

5. Slow agriculture growth in many part of the country coupled with rapid population growth has also resulted in widespread unemployment in large parts of rural India.

Conclusion:- the Mahoalonobis model was shaken and a plan holiday was declared for three years. G.S. Bhalla has aptly stated, "the poor shape of the economy due to low growth rate, lack of diversification, concentration of economic power in the hands of urban industries and rich farmers, widespread prevalence of poverty among the rural and urban masses led to mounting discontent with the chosen path of development. It was, therefore, as a consequence of poor performance of the economy that the basic strategy of Indian development came under fierce attack.

Departure from the Mahalanobis Strategy of Development

When the long-term planning was resumed in 1969 the basic frame work of Mahalanobis strategy was retained. In the fourth plan, the objective of self-reliance was not given up, but the main emphasis was shifted to rapid economic growth. Therefore, not only quick-yielding projects were preferred in each economic sector, but light industry was also favoured at the expense of heavy industry. Further, in the field of infrastructure, roads were preferred to railways and in agriculture improved seeds and fertilizers got priority over community development. This departure was probably induced by the rapid growth of population which was exercising pressure for increasing the supply of foodgrains and other consumers goods.

Precisely, at this junction studies of Dandekar and Rath, pranab Bardhan and B.S. Minhas in India clearly indicated that the benefit of growth had failed to reach the poor despite the governments intention ro that effect. A few like Keith Griffin, pranab Bardhan, Francine Frankel, and Biplab Das Gupta argued that rapid agricultural growth in the green revolution belt had simultaneously resulted in accentuation of rural poverty. The cry, therefore, was for priority to Minimum Needs Programme over growth.

The Fifth Plan actually bought this idea when it accorded the highest priority lo removal of poverty. Elimination of poverty must, therefore, have the highest priority. The plan, however, stressed that elimination of poverty required a rising rate of growth of domestic product. Thus the development strategy of the earlier phase of planning was not discarded altogether even in the Fifth Plan.

There was a clear shift in the strategy of planning when the Janata government decided to terminate the Fifth Five Year Plan before its period was over. The Draft Five Year Plan 1978-83, which the Janata government had adopted, stated a new development strategy. For the first time the Planning Commission acknowledged that denial of social justice to the poorest sections of population to achieve a little higher rate of growth was not a correct policy. Therefore, it decided that in the next phase of planned development there would not be undue emphases on growth rates. However, despite a big attack on the Mahalanobis strategy of development, the new strategy failed to completely reverse it. The only significant changes that could be made in the field of industrial development were that the area of private sector was extended and more liberal imports were allowed. The continuing programmes in heavy industry area had to be pursued, and they took away major portion of the public investment.

When Janata lost power to the Congress (I) in 1980, the Five Year Plan 1978-83 was terminated and the Sixth Five Year Plan 1980-85 was adopted. The Sixth plan document stated, “The basic task of economic planning in India is to bring about a structural transformation of the economy so as to achieve a high and sustained rate of growth, a progressive improvement in the standard of living of the masses leading to the eradication of poverty and unemployment and provide the material base for a self-reliant economy.” The strategy to achieve these objectives was chosen after examining various alterative development profiles with their attendant costs and benefit. The Planning Commission particularly emphasized the need for incorporating specific action programmes like the IRDP, the NREP and such other anti-poverty schemes in the strategy which aimed at removal of poverty and unemployment.

In deciding the growth path, the planners underlined the role of the public sector that it had played in the past. They further asserted that the public sector investment would continue to play an important role in influencing the growth performance of the economy in the failure. Nonetheless the share of the public sector investment in the total investment was reduced. Even the investment pattern under the Sixth plan was not in conformity with the Mahalanobis strategy. While the plan gave a high priority to energy as its inadequate development posed a serious threat to the whole planning activity in the country, the heavy industries were denied the priority they deserved. Finally, a new dimension in the development strategy of the Sixth Plan that deserves particular attention was the special emphasis on sustained efforts to raise exports for building up the desired safety margin in the long-term balance of payments position of the economy.

12.7 THE SEVENTH PLAN DEVELOPMENT STRATEGY—AGRICULTURE DEVELOPMENT LED GROWTH STRATEGY.

The Seventh Plan spelt out a new long-term development strategy. The plan stated that over the next fifteen years the planning in this country should address itself to solving the basic problems of the people besides creating conditions for self-sustaining growth in terms of both the capacity to finance growth internally and the development of technology. In concrete terms this meant that the planning activity had to be directed towards "the elimination of poverty and creating conditions of near full employment, the satisfaction of the basic needs of the people in terms of food, clothing and shelter, attainment of universal education, and access to health facilities for all." The attainment of these goals, according to the planners, required a strategy different from the one followed in the country in the earlier phase of economic planning. The planners had taken into account and the likely developments over the next fifteen years. Creation of jobs in social and economic overhead capital and modern manufacturing industries involved investment on a scale which was beyond the capabilities of the economy, the planners intended to create job opportunities in rural areas through development of agriculture, irrigation, rural infrastructure and promotion of village and cottage industries. Thus, the compulsion of job creation on a big scale called for the adoption of an output model oriented to the wage-goods model of Vakil and Brahmananda.

According to the planners, appropriate group action would be necessary to enable small farmer to make effective use of facilities like irrigation, credit, marketing and storage. The planners were convinced that the gains of growth were often neutralized by the fairly high growth rate of population in this country. Therefore, the strategy would be to bring down the rate of population growth within manageable limits. This would not only require considerable expansion of family welfare services but also sustained improvement in education of girls and improved status of women in social and economic life.

In India, for quite some time failures on the energy front had adversely affected the overall performance of the economy. Therefore, effective energy planning was made an important constituent of the development strategy. In concrete terms the Seventh Plan development strategy contained four substantive elements of change. First, it gave priority to increasing agricultural production through more reliance on new technology. Second, it undermined the role of the public sector and induced increasing privatisation of industrial activity. Third, with liberalization of imports it aimed at raising efficiency in the manufacturing sectors. Fourth, planning and administrative procedures and institutions were accordingly changed and emphasis was switched from regulatory to facilitatory procedures. In totality this strategy was a variant of what is now known as Agricultural Development-led Growth (ADLG) strategy.

12.8 THE NEW DEVELOPMENT STRATEGY

The national income of India registered 5.5 per cent per annum increase during the 1980s. This was significantly higher than the trend rate of increase in the national income of this country during the first three decades of economic planning. However, the strategy which enabled the country to step up the rate of economy growth during the 1980s pushed the economy towards economic crisis. The crisis began in 1990-91 and the year 1991-92 turned out to be an exceptionally difficult year for the economy with the deepening of the crisis. The balance of payments problems, which developed in 1990-91, reached crisis proportion by June 1991. In this period, the country faced a serious foreign exchange problem and was on the brink of default in payments. The government tackled this problem introducing a severe import squeeze, as a result of which industrial production was disrupted. In 1991-92 right from the beginning of the year, the production in the industrial sector showed a tendency to fall. Inflationary pressure which had begun to increase in 1990-91, reached a peak level of 16.7 per cent in August 1991. Growth of real GDP in this period of crisis decelerated sharply.

The government which assumed office in June 1991 responded to the crisis in two ways. First it took some emergency actions to restore confidence in the government's ability to manage the balance of payments. Among the emergency actions, devaluation of the rupee by around 18 per cent in July 1991 and shipment of gold to the Bank of England to raise $ 600 million were particularly important. However, these measures could provide only temporary respite from the economic crisis. Therefore, the government decided to introduce substantial reform and adopted a new development strategy. The new approach involved four major policy initiatives (i) macroeconomic stabilization through fiscal correction; (ii) trade policy reforms to provide stimulus to exports; (iii) industrial policy reforms to provide greater competitive stimulus to industry; and (iv) the financial sector reforms to improve its performance. These policy measures were expected to restore the health of the economy and put it back on the development path.

The new development strategy is often characterized as Export-Led Growth (ELC) strategy. It assumes that trade is an engine of growth implying that the performance on the export front will determine the overall growth performance of the economy. However, the export performance to a great extent depends upon the external economic environment which in recent years has not been very favourable due to recession in the major industrialisal countries. Under the circumstances, it is unrealistic to rely solely on favourable external conditions for a fillip to our economic growth. The planning Commission has thus suggested that "it will be safer to take the external condition as it unfolds and concentrate on providing a domestic economic environment which is conducive to efficient growth of the economy. Experience shows that a set of well-coordinated macroeconomic policies is of utmost importance in ensuring such an economic environment.

Broadly speaking the policy regime government trade, technology and foreign capital flow, industrial deregulation and administered price policy and financial sector reforms taken together constitute structure policies. These policies aim at improving supply side of the economy. Monetary and fiscal correction polices are known as stabilization policies. They aim at controlling aggregate demand in accordance with the long run growth path of an economy. Since both macroeconomic stabilization and structural policies are important to create an economic environment which is conducive to economic growth, the government has introduced significant policy changes in both these areas of economic policy with varying degree of success.

The ELG strategy leads to globalization of the economy which, in turn, exposes it to fluctuations in other countries. Moreover, the ELG strategy by itself cannot eliminate poverty in this country in the near future because of the weak trickledown effect. Therefore, expansion of employment opportunities, and augmentation of productivity and income levels of both the underemployed and employed poor should be the main instruments of poverty alleviation. The planning Commission is of the view that even an employment-oriented growth strategy will achieve the goal of elimination of poverty only in the medium and long term. Therefore, in any case short term employment must be provided to the unemployed and underemployed, particularly among the poor and vulnerable sections through the special employment programmes.

The ELG strategy under the Ninth plan was oriented to enabling India's broad based and varied private sector to reach its full potential for raising production and income levels, It hoped that "a vigorous private sector operating under the discipline of competition and free markets, will encourage efficient use of scarce resources and ensure rapid growth at least cost. The Tenth plan echoes these sentiments. It calls for creating an environment conducive to the growth of the private sector. The role of the State has naturally been very much reduced. It is no longer a controller of private enterprise. At the most it can take initiative in the area of social development. Another area where the State will need to play a continuing role is infrastructure particularly rural infrastructure and road development which are unlikely to attract private investment.

12.9 THE TENTH PLAN DEVELOPMENT STRATEGY

The development strategy as envisaged in the Tenth Plan had the following elements:

Redefining the Role of Government

According to the Tenth plan, it is necessary to redefine the role of the government in the new emerging economic scenario. In the past the government took on too many responsibilities, imposing severe strain on its limited financial administrative capabilities and also stifling individual initiative. An all persuasive government role may have been necessary at a stage where private sector capabilities were undeveloped, but the situation has changed considerably over the years with a strong and vibrant private sector now emerging in the economy. Therefore, the focus of government policies should now shift to providing an environment which is conducive to the growth of the private sector.

The Plan, however, specifically mentions two areas wherein the role of government will continue to be important: (1) the social sectors, where its role will clearly have to expand; and (2) infrastructure development, where gaps are large and the private sector cannot be expected to step in significantly. The plan divides infrastructure into two categories: telecommunications, power, ports etc. where the private sector should be allowed to play a greater role, by providing an appropriate policy framework; and rural infrastructure and road development etc. where the government will have to take the lead.

Reappraisal of Macroeconomic Management System

With the growing importance of the private sector in economic matters, and the consequent increase in the sensitivity of the economy to business cycle fluctuations, both the role and the manner of macroeconomic management require a reappraisal. Greater flexibility in fiscal and monetary policies has now become necessary to ensure that the economy is consistently maintained on the feasible growth path. According to the plan, while where has been considerable improvement in the flexibility and sophistication of monetary and exchange rate management in the country, the fiscal policies remain rooted in outmoded budgeted procedures. It is imperative that a reformulation of the fiscal management system be undertaken expeditiously to make it more appropriate for the changed context.

Laying Down State Level Targets

The Indian plans have traditionally focused on setting only national targets. However, the performance of different States has varied significantly - while some States have registered fast growth, some poor States have seen a deceleration in growth. According to the Tenth plan, it is important to recognize that the sharp increase in the growth rare and. significant improvement in the social indicators that are being contemplated in the plan will be possible only if there is corresponding improvement in the performance of the laggard States. In order to emphasise this fact the Tenth Plan lays down State specific targets for different development goals consistent with the national plan.

Strategy for Equity and Social Justice

According to the Tenth Plan, although growth has strong direct poverty reducing effects, the frictions and rigidities in the Indian economy can make these processes less effective. Accordingly, it is necessary to explicitly address the need to ensure equity and social justice. The Plan proposed the following three pronged strategy for attaining equity and social justice along with high rates of growth:

1. Agricultural development must be viewed as a core element of the Plan, since growth in this sector is likely to lead to the widest spread of benefits especially to the rural poor.

2. The growth strategy of the Tenth Plan musts ensure rapid growth of those sectors which are most likely to create gainful employment opportunities and deal with the policy constraints which discourage growth of employment. Particular attention must be paid to the policy environment influencing a wide range of sectors which have a large employment potential.

3. There will be a continuing need to supplement the impact of growth with special programmes aimed at special target groups which may not benefit sufficiently from the normal growth process. Such programmes have long been pan of our development strategy and they will have to continue in the Tenth plan as well.

12.10 THE ELEVENTH PLAN DEVELOPMENT STRATEGY

The Eleventh plan emphasized 'faster and more inclusive growth.' According to the plan document, the strategy for inclusive growth in the Eleventh plan is not just a conventional strategy for growth to which some elements aimed an inclusion have been added. On the contrary, it is a safety which aims at achieving a particular type of growth process which will meet the objectives of inclusiveness and sustainability. This strategy must be based on sound macroeconomic policies which establish the macro-economic preconditions for rapid growth and support key drivers of this growth. It must also include sector specific policies which will ensure that the structure of growth that is generated, and the institutional environment in which it occurs, achieves the objective of inclusiveness in all its many dimensions."

In accordance with the above, the Eleventh plan strategy aimed at:

1. Rapid growth (at 9 per cent per annum) that reduces poverty and creates employment opportunities;
2. Access to essential services in health and education especially for the poor;
3. Equality of opportunity;
4. Empowerment through education and skill development;
5. Employment opportunities underpinned by the National Rural Employment Guarantee;
6. Environmental sustainability;
7. Recognition of women's agency; and
8. Good governance

1. Rapid Growth and poverty Reduction: The Eleventh Plan emphasized rapid growth of the economy as this is an essential requirement for poverty reduction and an expansion in economic opportunities for all sections of the population. However, this growth should be better balanced to rapidly create jobs in the industrial and service sectors. This is necessary if a significant portion of the labour force is to shift out of agriculture where it is currently engaged in low productivity employment into non-agricultural activity that can provide higher real incomes per head. This must be accompanied by efforts to improve the income earning opportunities of those who remain in agriculture by raising land productivity. In the industrial sector, the focus has to be on labour intensive industries and small and medium enterprises.

***2. Access to Essential Services*:** Access to basic facilities such as health, education, clean drinking water etc. impacts directly on welfare in the short-run while in the longer run, it determines economic opportunities for the future

Since access to these services for the mass of the population depends not only upon their income levels but upon the delivery of these services through publicly funded systems, the Eleventh Plan envisaged a major expansion in the supply of these services. It hoped that the high growth being targeted over the plan period would help in providing ample resources to fund these programmes by way of higher tax revenues that would become available and a larger borrowing capability.

3. ***Social Justice and Empowerment***: To ensure inclusiveness, individuals belonging to disadvantaged groups should be provided special opportunities to develop their skills and participate in the growth process. This outcome can only be ensured if there is a degree of empowerment that creates the true feeling of participation so necessary in a democratic polity. Empowerment of disadvantaged and hitherto marginalized groups is therefore an essential part of any vision of inclusive growth. The Eleventh plan argued that democracy at the level of third layer of policy, i.e. the Panchayati Raj institutions, provides opportunities for empowerment and participation of all groups with reservations for SCs, STs and women. These institutions should be made more effective through greater delegation of power and responsibility to the local level.

4. ***Environmental Sustainability*:** The Eleventh plan emphasized a development process that is environmentally sustainable. Natural resources such as water and land are limited and their per capita availability is actually diminishing because of rising population and also because of irrational exploitation of common pool resources. Therefore the plan advocated a strategy that not only preserves and maintains natural resources, but also provides equitable access to those who do not access to them at present. Unless environmental protection is brought to the centre stage of policy formulation, what is perceived as development may actually lead to a deteriorating quality of life. The plan also emphasized the fact that the danger to environment is caused by activities worldwide. Therefore, international cooperation is called for.

5. ***Gender Equity*:** The Eleventh plan document went beyond considerations of empowerment and recognized women as agents of sustained socio-economic

growth and change. It acknowledges women's agencies and committed itself to ensure that their needs, rights and contribution are reflected in every area of activity. While endeavoring to guarantee the rights and entitlement of all women, the Eleventh Plan recognizes that women are not a homogenous category. Their situations and consequently requirements differ based on their location, within various caste communities, religious, geographic and development zone and, accordingly, the plan emphasized focusing on all these differential and specific requirements.

6. ***Governance***: The strategy of the Eleventh plan in the field of governance aimed at bringing about major improvements in order to make government funded programmes in critical areas more effective and efficient. In this regard, the plan emphasized focusing on all these differential and specific requirement.

1. Involving communities in both the design and implementation of such programmes as experience shows that Civil Society Organizations can work effectively with Panchayati Raj institutions to improve the effectiveness of these programmes. Thus, it is necessary to experiment with programme design to give more flexibility to decision making at the local level.

2. It is especially important to improve evaluation of the effectiveness of how government programmes work and to inject a commitment to change their designs in the light of the experience gained.

3. Accountability and transparency are critical elements of good governance. The Right to Information Act, (RTI) enacted in 2005 empowers people to get information and constitutes a big step towards transparency and accountability.

12.11 SUMMARY

Economic Planning has been a central level of India's development strategy since Independence. India has followed a path of planned development, which has by and large served it well.

It is very important for

- the weaker, and private sector of the economy.

- to reduce inequalities of income
- to cure the problem of unemployment
- for structural changes.

In essence, we can condude that for balanced, equitable and optimum growth, planning is essential.

12.12 QUESTIONS

Q.1 Describe the need and objectives of economic planning in India.

Q.2 Explain the strategy of different plans of India.

Q.3 Elaborate the evolution of planing process in India.

REFERNCE / SUGGESTED READING :

- Misra & Puri : Indian Economy, Himalaya Publishing House Pvt. Ltd., Mumbai

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REGIONAL PLANNING POLICY IN INDIA

Structure

13.1 OBJECTIVE

After going through this lesson, you will be able to :

- Understand in term regional planning.
- Regional disparities.
- Explain government ways to reduce the regional disparities in India.

13.1 INTRODUCTION

Like planning at the national level, regional planning also has the objective of accelerating the process of social advancement of the community through the techniques of economic and social planning though the sphere of influence of a regional plan is restricted to a given region or area of the country. Within the overall framework of a national plan, regional planning is designed to formulate measures to assist the growth of certain regions while restraining the growth of others (if that becomes necessary), assist the governments in examining the regional implications of undertaking infrastructural developments, and lay down detailed plans for economic activity in the different regions of the country.

13.3 REGIONAL PLANNING CONCEPTUALIZED

The task ol regional planning is to help us define this hierarchy and indicate what industries or activities should be located at different levels of the hierarchy so that an overall development of all villages and urban centers can be ensured in an integrated way at minimum cost in terms of money, time and effort. It is only by following this method of integrated development of rural areas that the problems of poverty, unemployment, under- development and under-employment can be solved effectively. In the Indian context, the basic task of regional planning is "the deliberate promotion of growth centres as an instrument of rational rural planning. In the developed countries, the task of regional planning is ensure that the rate of development of the backward regions is considerably greater than the rate of development of other regions so that regional disparities can be narrowed down over time. The task of regional planning in the underdeveloped countries is far more complex - Because of the widespread poverty and below-subsistence level of existence of the vast majority of people in many backward regions of these countries, the task is two-fold: (i) reduction of regional disparities, and (ii) ensuring at least a minimum level of subsistence to the majority of people inhabiting the backward areas and living below the level of subsistence.

13.4 MAGNTTUDE OF REGIONAL IMBALANCES IN INDIA

Measuring regional disparities is a difficult task. Differences in per capita income are often' highlighted to bring out disparities in different States. However, aside from the fact that such a study reveals only inter-Stare differences in the levels of income and says nothing about intra-State differences (i.e., differences in per capita income within different regions or areas of a particular State), per capita net Stare domestic product alone is not a sufficient indicator of development. Difference in industrial growth, disparities in agricultural growth, level of literacy in different Stales, percentage of workers in manufacturing industries to total workers, total road length, infant mortality rate etc., can all be considered indicators for purposes of studying imbalances and inequalities in regional development.

Inter-state disparities can be discussed

1. Disparities in per capita income
2. Converging growth rates but increasing income inequalities
3. Incidence of poverty
4. Disparities in physical quality of life
5. Disparities in industrial growth
6. Disparities in agricultural growth
7. Urban population as per cent of total population
8. Per capita electricity consumption

Tabl: 59.1

Per Capita State Net Domestic Product in 15 Major States of India

(At current prices)

(in ₹)

S. No.	State	1960-61*	1971-72*	1980-81*	1990-91*	2005-06#	2008-09#	2009-10#	2010-11#
1.	Andhra Pradesh (AP)	314	627	1380	4531	28539	46345	52914	62912
2.	Assam	349	548	1284	4281	18396	24099	27464	30569
3.	Bihar	216	415	917	2660	8353	14719	17064	20708
4.	Gujarat	380	827	1940	5891	37780	55068	63549	75115
5.	Haryana	359	960	2370	7508	**42310**	**67397**	**80759**	**94680**
6.	Karnataka	292	698	1520	4598	31239	48084	52191	60946
7.	Kerala	278	592	1508	4200	36276	53046	60264	71434
8.	Madhya Pradesh (MP)	274	534	1358	4049	16631	25175	28571	32222
9.	Maharashtra	**419**	808	2435	7439	41624	62454	74027	83471
10.	Orissa	226	473	1314	3077	18846	31416	34361	40412
11.	Punjab	383	**1121**	2674	**8318**	36199	55315	62605	69737
12.	Rajasthan	271	560	1222	4191	20275	31279	34982	42434
13.	Tamil Nadu	344	648	1496	4893	35243	54140	63547	72993
14.	Uttar Pradesh (UP)	244	497	1278	3590	14221	20422	23392	26355
15.	West Bengal	386	779	1773	4673	24710	35487	41837	48536
	Average	373@	792@	1852@	5621@	27131@	40775@	46117@	53331@

@ Per capita NNP at current prices.

Note: Owing to differences in source material used, the figures for different States are not strictly comparable.

*Bihar includes Jharkhand, Madhya Pradesh includes Chattisgarh and Uttar Pradesh includes Uttarakhand.

Bihar excludes Jharkhand, MP excludes Chattisgarh and UP excludes Uttarakhand.

Source: *(i)* Directorates of Economics and Statistics of respective State Governments, and *(ii)* Reserve Bank of India, *Handbook of Statistics on Indian Economy*, 2011-12 (Mumbai, 2012), Table 8.

Table 59.2

Comparative Growth Rates of Selected Low-Income States

(per cent per annum)

Eighth Plan (1992-97)	*Ninth Plan (1997-2002)*	*Tenth Plan (2002-07)*	*Eleventh Plan (2007-12)*
Bihar (2.2)	Bihar (4.0)	Bihar (4.7)	Bihar (12.1)
Orissa (2.1)	UP (4.0)	UP (4.6)	UP (6.9)
UP (4.9)	Orissa (5.1)	MP (4.3)	MP (8.9)
MP (6.3)	MP (4.0)	Jharkhand (11.1)	Jharkhand (7.3)
Rajasthan (7.5)	Rajasthan (3.5)	Orissa (9.1)	Rajasthan (7.7)
4.6*	4.1*	6.8*	8.6*

Note: * Average GDP growth rates of five States with lowest per capita income, among General Category States.
Source: Government of India, Planning Commission, *Twelfth Five Year Plan* 2012-17 (New Delhi, 2012), Volume I, Table 11.1, p. 304.

1. Disparities in per Capita Income

Table 59.I gives estimates of per capita net State domestic product for different States of India at current price. Since data are at current prices, we cannot compare the figures for different years as prices have continued to rise over the years.

This table clearly shows that in terms of capita income, the states of Punjab, Maharashtra and Haryana have continuously maintained a considerable lead over other states. Maharashtra occupied the first place 1960-61 but was pushed to the second place buy Punjab in 1964-65. Since 1964-65 Punjab occupied the first place and pushed far ahead of other states. Haryana has occupied the first position since 2005-06. Its per capita income was Rs 94,680 in 2010-11. The second position was occupied by Maharashtra with a per capita income of Rs 83,471. Gujarat was third with its per capita income being Rs 75,115 in 2010-11.

1. Converging growth rates but increasing income inequalities

An encouraging trend in recent period is that the growth of SPD (State Domestic Product) of relatively poor State have increased considerably. Also, as is clear from Table 59.2, individually, these recorded excellent growth. Bihar, which was for quite some time a cause of worry for planners, has been able to record a growth rate 12.1 per cent in the Eleventh Plan. Similarly, Madhya Pardesh, Uttar Pardesh and Rajasthan have all recorded growth rates of 7 per cent or more in the Eleventh Plan. However, what is a matter of concern is the fact that although the SDP growth rates of relatively poor States have accelerated at a faster rate, per capita income (PCI) disparities are increasing. For instance, the average Gini coefficient during l98l-90 was 0.15 which increased to 0.19 during l99l-2000 and further to 0.224 for the period 2000-2010 (it remained stagnant at 0.224 for the year 2010-11 as well). This indicates the growing income disparities in India. Table 59.3 shows disparities in per capita income since 2004-05.

Table 59.3

Disparity in PCI (Per Capita NSDP) at 2004-05 prices

Year	*State with Lowest PCI*	*PCI (₹)*	*State with Highest PCI*	*PCI (₹)*	*Ratio of Lowest to Highest PCI (%)*	*Coefficient of Variation in PCI (%)*
2004-05	Bihar	7,914	Haryana	37,972	21	36
2005-06	Bihar	7,813	Maharashtra	43,651	18	39
2006-07	Bihar	9,150	Maharashtra	45,582	20	40
2007-08	Bihar	9,685	Maharashtra	50,138	19	40
2008-09	Bihar	10,994	Maharashtra	50,183	22	39
2009-10	Bihar	12,012	Maharashtra	54,166	22	41
2010-11	Bihar	13,632	Maharashtra	59,735	23	41
2011-12	Bihar	15,268	Maharashtra	64,951	24	41

Source: Government of India, Planning Commission, *Twelfth Five Year Plan* 2012-17 (New Delhi, 2012), Volume I, Table 11.4, p. 307.

The variation in per capita income among various States has been worsening in the last two decades. This is clear from the fact that the coefficient of variation increased from 34 per cent (1993-94) to 36 per cent (2004-05) and further to 41 in 2011-12. However, as shown in Table 59.3, the ratio of lowest to highest per capita income has improved from 21 per cent in the year 2004-05 to 24 per cent in the year 2011-12.

The widening disparities in per capita income across Stales show that the convergence in growth rates does not appear to have resulted in convergence in income levels across Stales.

1. Incidence of poverty

Poverty in any society is considered an important indicator of economic backwardness. In India, poor are to be found everywhere, but the percentage of population below poverty line is not the same in all the States. The Planning Commission's estimates of incidence of poverty in different States for different years are reproduced in Table 1

Table 1

	State	**1993-94**	**1999-2000 (30-day Recall Period)**	**2004-05 (Based on URP* Conusmption)**
1.	Andhra Pradesh	22.2	15.8	15.8
2.	Assam	40.9	36.1	19.7
3.	**Bihar**	**55.0**	**42.6**	**41.4**
4.	Gujarat	24.2	14.1	16.8
5.	Haryana	25.1	8.7	14.0
6.	Himachal Pradesh	28.4	7.6	10.0
7.	Karnataka	33.2	20.0	25.0
8.	Kerala	25.4	12.7	15.0
9.	**Madhya Predesh**	**42.5**	**37.4**	**38.3**
10.	Maharashtra	36.9	25.0	30.7
11.	**Orissa**	**48.6**	**47.2**	**46.4**
12.	Punjab	11.8	6.2	8.4
13.	Rajasthan	27.4	15.3	22.1

14.	Tamil Nadu	35.0	21.1	22.5
15.	**Uttar Pradesh**	**40.9**	**31.2**	**32.8**
16.	West Bengal	35.7	27.0	24.7
	All-India	**36.0**	**26.1**	**27.5**

* Uniform Recall Period

Source: Reseve Bank of India, *Handbook of Statistics on the Indian Economy 2011-12* (Mumbai, 2012), Table 162.

According to the planning Commission's estimates of the incidence of poverty given in Table 1, around 27.5 per cent of the population of India was below the poverty line in 2004-05. However, in certain States, the incidence of poverty was much less. For instance, population below the, poverty line was 8.4 per cent in Punjab, 15.8 per cent in Andhra Pradesh, 14.0 per cent in Haryana. 10.0 per cent in Himachal Pradesh and 15.0 per cent in Kerala. It is interesting to note that Andhra Pradesh and West Bengal are middle income States and yet in these States incidence of poverty is less than Maharashtra which is a high income State. As against this, incidence of poverty was as high as 41.4 per cent. in Bihar, 46.4 per cent in Orissa, 38.3 per cent in Madhya Pradesh, and 32.8 per cent in Uttar Pradesh. Bihar, Uttar Pradesh and Madhya Pradesh are big States. In 2004-05, these three States together account for 48.2 per cent (i.e., almost half) of the total number of poor in the country. This implies that there is extreme concentration of poverty in economically backward big states.

2. Disparities in human development

For studying regional inequalities, disparities in human development are as much (if not more) important as disparities in income. In terms of human development indicators, there are considerable variations in the performer across States as is clear from Table 2. In terms of human development indicators, Kerala it the best performer, witnessing a literacy rate of 93.91 per cent, female literacy rate of 91.88 per cent, sex ratio of 1,084 and infant mortality rate of 12. At the other end of the spectrum. the worst performance on these indicators is displayed by Bihar (lowest literacy rate of 63.82 per cent). Rajasthan (lowest female literacy rate of 52.66 per cent). Haryana (sex ratio of 877) and Madhya, pardesh (infant mortality rate of 67 per thousand). What is important is that the BIMARU States. despite witnessing impressive growth rates, continued to remain at the bottom of the distribution in terms of performance on human development indicators. However, as shown in Table 2. the richer States are also not immune from poor performance on these indicators. The two richest States of India Haryana, and

Punjab - perform poorly on indicators such as sex ratio and female literacy rates. This brings out the fact that per capita income is not an adequate measure of the economic and social progress of a society.

Table 2

Disparities in Human Development Indicators

State	*Literacy Rate (2011)*	*Female Literacy (2011)*	*Sex Ratio (2011)*	*Infant Mortality Rate (2011)*
Andhra Pradesh	67.66	59.74	992	43
Assam	73.18	67.27	954	55
Bihar63.82	53.33	916	52	44
Jharkhand	67.63	56.21	947	
Gujarat	79.31	70.73	918	41
Haryana	76.64	66.77	877	44
Himachal Pradesh	83.78	76.60	974	45
Jammu & Kashmir	68.74	58.01	883	45
Karnataka	75.60	68.13	968	35
Kerala	93.91	91.98	1084	12
Madhya Pradesh	70.63	60.02	930	59
Chattisgarh	71.04	60.59	991	54
Maharashtra	82.91	75.48	925	25

Orissa	73.45	64.36	978	57
Punjab	76.68	71.34	893	30
Rajasthan	67.06	52.66	926	52
Tamil Nadu	80.33	73.86	995	22
Uttar Pradesh	69.72	59.26	908	57
Uttarakhand	79.63	70.70	963	41
West Bengal	77.08	71.16	947	32

Source: *Government of India, Planning Commission, Twelfth Five Year Plan 2012-17 (New Delhi, 2012), Volume 1.Table 11.5 p.309*

Table 59.6

Human Development Index for States (1999-2000 and 2007-08)

State	*HDI (2007-08)*	*HDI (1999-2000)*	*Change in HDI*	*Percentage Change*
Uttarakahnd	0.490	0.339	0.151	44.54
Kerala	0.790	0.677	0.113	16.69
Assam	0.444	0.336	0.108	32.14
Jharkhand	0.376	0.268	0.108	32.14
Andhra Pradesh	0.473	0.368	0.105	28.53
North East (excluding Assam)	0.573	0.473	0.100	21.14
Madhya Pradesh	0.375	0.285	0.090	31.58
Tamil Nadu	0.570	0.480	0.090	18.75
Karnataka	0.519	0.432	0.087	31.64
Orissa	0.362	0.275	0.087	31.64
All India	**0.467**	**0.387**	**0.080**	**20.72**
Chattisgarh	0.358	0.278	0.080	28.78
Bihar	0.367	0.292	0.075	25.68
Himachal Pradesh	0.652	0.581	0.071	12.22
Maharashtra	0.572	0.501	0.071	14.17
West Bengal	0.492	0.422	0.070	16.59
Jammu & Kashmir	0.529	0.465	0.064	13.76
Uttar Pradesh	0.380	0.316	0.064	20.25
Punjab	0.605	0.543	0.062	11.42
Gujarat	0.527	0.466	0.061	13.09
Haryana	0.552	0.501	0.051	10.18
Rajasthan	0.434	0.387	0.047	12.14
Goa	0.617	0.595	0.022	3.70
Delhi	0.750	0.783	−0.033	−4.21

Source: Government of India, Planning Commission, *India Human Development Report* 2011 (New Delhi, 2011), Table 2.4 p. 24 and *Twelfth Five Year Plan* 2012-17 (New Delhi, 2012), Table 11.6, p. 310.

As is clear from Table 59.6 the top five ranks in terms of HDI in both years are occupied by Kerala Delhi Himachal Pradesh, Goa and Punjab At the other end of the spectrum are States such as Chhattisgarh' Orissa, Bihar, Madhya Pradesh, Jharkhand. Uttar Pradesh and Rajasthan. However, what is significant from the point of view of long-term development is the fact that these States have shown tremendous improvement in their HDI and it component indices over time, leading to a convergence of HDI across states. This is clear from the fact that the coefficient of variation of the HDI for States in 2000 was 0.313 and this fell sharply to 0 235 in 2008. if we look at absolute changes in HDI over the decade the conclusion that the poorer States are catching up with the nation average is strengthened. For instance' while all-India HDI improved by 0.080 points over the period 1999-2000 to 2007-08. HDI for relatively poor States like Assam, Jharkhand, Madhya Pradesh and Orissa increased by 0.108 0-108. 0.090 and 0.087 respectively. However, among relatively poor States. the increase in HDI in Bihar (0.075) points) and Uttar Pradesh (0.064 points; was less than the national average. But the relative improvement (that is percentage change) in HDI in Bihar (at 25.68 per cent) is greater than the national average (20.72 per cent). In fact, as shown by Table 59.6. the percentage change in HDI is greater for the majority of States with low per capita income than the improvement in HDI for India as a whole. According to the planning Commission in the backdrop of widening regional disparities in terms of per capita NSDP in the first-decade of the 21st century, it is encouraging to observe convergence in HDI)

1. Disparities in Industrial Growth

The initial distribution of industries in India was determined by the historical processes of growth reflected in the interests of the British rulers. As a result, most of the industries got concentrated a few centres. In 2004-05, the two states of Maharashtra and Tamil nadu accounted for 28.7 per cent of factory employment, 29.0 per cent of invested capital, 31.0 per cent of gross output and 28.0 per cent of value added by manufacture. If the three industrially advanced states of Maharashtra, Gujarat and Timal nadu are considered together, the true picture of regional concentration of industries is explicitly brought into prominence. In 2009 - 10, these three states together (having 20.2 per cent of total population according to 2011 Census) accounted for 43.11 per cent of gross output, 43.6 per cent of net value added, 43.1 per cent total invested capital, and 38.6 per cent of employment in Factory sector. The mere fact what more than two fifths of the total output, value added and fixed capital and a little less than two-fifths of total employment in factory sector is found in these three States alone is a proof of substantial regional concentration of industries in three industrially advanced States of Maharashtra, Gujarat and Tamil Nadu.

2. Disparities in Agricultural Development

As far as the agricultural sector is concerned, regional disparities have increased over time with the States of Punjab and Haryana and parts of Uttar Pradesh pushing well ahead of others. This is due to the reason that the success of the programme of High yielding Varieties of seeds (known as HYVP or New Agricultural strategy) was largely limited to wheat growing areas. In fact, due to HYVP, the combined share of Punjab and Haryana in total output of foodgrains rose from 7.5 per cent 1964-65 to 18.0 per cent in 2011-12 while these States account for a mere 4.0 per cent of the country's population (as per 2011 census). In 201 l_12, productivity of foodgrains in Punjab was 4,339 kgs. per hectare which was more than twice the national average of 2,059 kgs. per hectare. Productivity of foodgrains in Haryana in 20ll-12 was 3,878 kgs. per hectare. Disparities in this respect would be clear from fact that productivity in the third ranked State (in terms of yield per hectare) Kerala, was only 2,687 kgs. per hectare in 2011-12. The prosperity of agriculture in Punjab and Haryana is largely due to irrigation facilities and high fertilizer consumption per hectare of cropped area. In Punjab and Haryana, in 2009-10, gross irrigate area as percentage of gross cropped area was 98.4 per cent and 89.0 per cent respectively, as against all India average of 45.3 per cent. Likewise, fertilizer consumption per hector of cropped area was 243.6 kgs. in Punjab and 224.9kgs. in Haryana in 2011-12, as against the national average of 144.3 kgs. in the same year.

3. Other Indicators of Disparities

In addition to disparities in per capita income, growth rates, various dimensions of human development, incidence of poverty, industrial growth and agricultural development, it is necessary to consider regional disparities in other areas of development as well. From this point of view, the indicators chosen are urban population as per cent of total population in 2001, domestic electricity consumption per capital, and, per capita bank deposits. Let us now consider each of them briefly.

a) Urbanization is a part of development process. Therefore, percentage of urban population is normally high in relatively developed regions, In India, the proportion of urban population to total population was higher in the States of Maharashtra (45.2 per cent), Tamil Nadu (48.4 per cent), Gujarat (42.6 per cent), Karnataka (38.6 per cent), Punjab (37.5 per cent) in 2011 than that at the all-India level (31.2 per cent). In terms of urbanization, even otherwise underdeveloped States like Orissa (16.7 per cent), Bihar (11.3 per cent), Assam (14.1 per cent), Himachal Pradesh (10.0 per cent). and Uttar Pradesh (22.3 per cent) ranked quite low.

b) Disparities in electricity consumption per capita are quite large. In 2009-10, Delhi consumed 508.8 kwh of domestic electricity per capita while Punjab consumed 257.3 kwh per capita and Tamil Nadu 208.5 kwh per capita. As against this, domestic consumption of electricity was only 83.4 kwh per capita in Uttar Pradesh, 73.4 kwh per capita m Madhya Pradesh and only 20.5 kwh per capita in Bihar. The national average of domestic electricity consumption per capita was 121.2 kwh in 2009-10.

c) Deposit mobilization by commercial banks also reflects relative prosperity of the States. In March 2011, per capita bank deposits in Delhi and Maharashtra were Rs 2,85,400 and Rs 82,380 respectively, as against the national averages of Rs 33.174. The extent of regional disparities in this regard would be clear from the fact that in March 2011 per capita deposts in bihar and Assam were only Rs 9667 and Rs 16393 respectively.

13.5 LACK OF GENUINE REGIONAL PLANNING IN INDIA

Though the government initiated a number of measures to develop backward regions and reduce regional disparities, the fact is that genuine regional planning is entirely missing. Whatever planning has been done at the regional level was ad hoc in character since regional variables did not form part of the overall planning strategy. The models that have formed the basis of planning in India (e.g., Mahalanobis model), were sectoral in character and no regional variables were introduced. Therefore, regional aspects of planning never emerged in terms of an interwoven strategy of development.

All discussions centered on the issues relating to the allocation of resources among different sectors (e.g., capital goods industries and consumer goods industries) and questions relating to allocation of resources (say, in industries) among different regions were not discussed.

Whatever discussions on location of industries are found did not directly emerge from the models themselves but were added simply as an appendage to justify the claim of planners that adequate attention was being paid to considerations of balanced regional development and regional planning. A classic example of this statement is to be found in the policy regarding the setting up of large public sector projects in backward regions. The government has invested substantial amounts in public sector projects in the three backward States of Bihar, Orissa and Madhya Pradesh (especially in steel plants). However, these investment activities have not been able to generate growth process in the backward States of Bihar, Orissa and Madhya Pradesh. This is because of the fact that the policy pertaining to investment in public sector projects in these States did not form part of a regional at planning strategy. The neglect of spatial factors in Indian planning strategy is also evidenced from the fact that Indian plans completely ignored the role of development poles, and 'growth centers' in the development process. According, no conscious efforts were made in the plans to evolve a linked pattern of hierarchy of different settlements (having central villages, service towns, growth points, growth centre's, growth poles, etc.), and therefore no spatially integrated socio-economic organization could emerge. What emerged was an immensely distorted and lopsided pattern of urbanization and economic development. Large metropolitan centres like Mumbai, Kolkata, Delhi and Chennai continued to attract industries and other economic activities. In fact, all activities have tended to concentrate in these centers' and labour and capital have continued to flow from the backward areas and urban centres of lower order to these large urban centers. The investments should be made to maximize employment and 'to hasten and widen spatially the transforming process' are more important. It is only through the development of a hierarchical pattern of linked settlement that balanced regional development can be achieved, ad hoc measures like the ones we have been practising are of no avail.

While on the one hand absence of a strategy of growth centres and development poles led to a lopsided pattern of urban development, on the other hand, it led to the adoption of measures in the rural sector which did not form a part of an integrated rural development strategy. The nearest that we came towards evolving such a strategy was the adoption of the Community Development Programme. However, absence of a regional planning framework led to the failure of the programme. Since no attempts were made to conceive of rural areas as part of a hierarchy of human settlements, functional linkages between rural and urban areas were not explored. As a consequence, growth impulses were not generated and rural areas remained backward and stagnant.

The Centralized Nature of Planning

1. Neglect of spatial factors and genuine regional planning also stems from the nature of the plan formulation process which is a highly centralized one, The basic task in plan formulation is done by the planning commission at the centre and state governments merely adjust their policies and programmes accordingly.

2. The agency through which the Stare governments voice their opinion is the National Development Council NDC. The Chief Ministers are generally not able to present a united front; the meetings of the NDC are conducted in a hurried way and are called for a very short period leaving no time for detailed discussion; and the NDC is not presented by the Planning Commission with alternative plans. This reduces the role of the NDC to merely making adjustments here and there in the proposed plan.

3. The role of States in the planning process is confined merely to bargaining for more financial resources and higher allocations, Their role in the basic task of planning—that of plan formulation –continues to be negligible. At the State level and the lower levels, there is no planning machinery.

13.6 POLICY MEASURE TO REMOVES REGIONAL DISPARITIES

The planning Commission of India has sought to tackle the problem of regional disparities and backwardness particularly in three ways:

a) The recognition of backwardness as a factor to be taken into account in the transfer of financial resources from the Centre to the States;

b) special area development programmes directed at development of backward areas; and

c) measures to promote private investment in backward areas. We shall deal with these three policy measures in greater detail.

Backwardness and resourcing transfer

The Finance Commissions in India have used backwardness of a State as one of the criteria for the transfer of funds from the Central pool to the States. The resource transfers related to central assistance for State Plans, transfers effected under recommendations of Finance Commission, ad Hoc transfers from the Centre to the States, the distribution of assistance for Centrally sponsored schemes, the distribution of long-term and short-term credit from financial institutions etc. The share of the backwardness in plan outlay and in Central assistance steadily rose from 48 per cent in the First plan to 57 per cent in the Third Plan. Since then, the share of the backward states in Central Plan assistance has been gradually declining to50 per cent in the Fifth Plan, 36 per cent in the Sixth Plan and 37 per cent in the Eighth Plan (Refer Table 8). The tenth Plan has projected a further decline to 36 per cent.

TABLE 6: Central Assistance to State Plans

Plans	Total Assistance to all States (₹ crore)	Total Assistance to Backward States (₹ crore)	Percentage of Assistance of Backward States
Sixth Plan (1980-85)	16,560	7,590	46
Seventh Plan (1985-90)	31,420	13,200	42
Eighth Plan (1992-97)	93,830	35,160	37
Ninth Plan (1997-2002) (Actual)	1,85,260	69,990	38
Tenth Plan (2002-07) (Projected)	2,54,100	91,080	36

* The backward States are Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh.

Many states demanded that the proportion of Central assistance allotted to special projects should be raised from 10 per cent under the Gadgil formula to 25 per cent, so as to benefit the backward states.

Table 9

				Share percent as per 13th Finance
Non-Special Category Forward States				
Goa	80,392	0.14	0.50	0.28
Maharashtra	37,235	10.21	6.91	5.44
Punjab	36,376	2.57	2.11	1.42
Haryana	35,893	2.23	1.77	1.17
Gujarat	34,223	5.35	3.93	3.89
Kerala	32,818	3.36	3.26	2.90
Tamil Nadu	31,603	6.58	5.94	5.78
Karnataka	28,774	5.57	4.42	4.86
Andhra Pradesh	26,655	8.03	6.34	8.01
West Bengal	23,145	8.45	8.81	7.68
Sub-Total				41.43
Backward States				
Chhattisgarh	20,336	2.20	2.87	2.89
Jharkhand	19,908	2.84	3.54	3.66
Rajasthan	18,909	5.95	5.86	6.11
Odisha	18,440	3.88	6.26	5.62
Madhya Pradesh	16,597	6.36	6.92	7.31
Uttar Pradesh	13,842	17.52	19.48	20.98
Bihar	7,486	8.75	11.06	12.01
			[illegible]	58.57
			[illegible]	100.00

* NCA implies Normal Central Assistance

States in a particular category have been arranged in the descending order on the basis of per capita gr domestic product (GSDP).

Even the revised formula for Central assistance could not tilt the balance in favour of backward states as was intended. There are certain basic difficulties in solving the problem of regional disparities and backwardness through transfer of resources from the Centre to the States. There is no guarantee that the resources transferred from the Centre to the States would be automatically used for the development of the backward areas or districts. In fact there is a "tendency to divert funds intended for backward and difficult areas to more forward areas and easier programmes.

Special development programmed

Specific Plan schemes have been formulated with Central assistance to develop hilly areas, tribal areas and drought-prone areas. Moreover, schemes of rural development directed towards the improvement of specific groups like small farmers and agricultural labourers were also located in backward areas. In course of time, these special schemes for particular target groups, become a part of the programme of block level planning for integrated rural development and full employment.

The Eleventh Finance Commission did not make backwardness as such a criterion for resource transfer but in the formula for resource transfer, among the different criteria, the relative distance of the per capita income of state with income of the state with highest per capita income and the index of infrastructure development were indirectly used to include backwardness. On the basis of the new formula, backward states and special category states, taken together would receive 61.2 per cent of total resource transfer.

As per data provided in table 9, the Central Government and the Twelfth Finance Commission have made efforts to reallocate resources in favour of the backward states. Out of the Normal Central Assistance as against a population of 52.5%, belonging to forward states. Only 44% of the funds were provided. Similarly the Twelfth Finance Commission, allocated only 41.4% of the total funds to forward states. Consequently backward states with a population of 47 .5% received 56% funds under Normal Central assistance and 58.6% shares as per Twelfth Finance recommendations. This indicates the intention of the Central Government to tilt the balance of allocations in favour of backward states.

13.7 INCENTIVES TO PROMOTE INVESTMENT IN BACKWARD AREAS

Various incentives, both fiscal and otherwise, have been provided in order to tackle the problem of industrial backwardness and to promote private investment in backward areas. These incentives have been provided by the centre, by the sates and by public sector financial institutions.

CENTRAL GOVERNMENT INCENTIVES

The government of India has been providing improvement incentives to promote private investment in backward areas. These incentives are:

a. Income Tax Concession: New industrial units located in backward areas set up after January 1971 are allowed a deduction of 20 per cent of profits for computation of assessable income. This concession introduced in April 1974 was to be a available for a period of 10 years.

b. Central Investment Subsidy Scheme: The scheme of central investment subsidy, as originally announced in1970, provided for an outright subsidy at the rate of 10 per cent subject to a maximum of Rs 5 lack on fixed capital investment, viz., land, building, plant and machinery. The rate of subsidy was subsequent raised to 15 per cent and still later to 20 per cent.

   However, the block/talukas/extensions of townships in categories B and C areas which have exceeded an investment limits of Rs 30 crores as at the end of march 1983 were to be excluded from the scope of the investment subsidy scheme.

   With effect from April 1984, the maximum limit of central investment subsidy has been raised to Rs 50 lakh at the rate of 25 per cent in the case of electronic industries set up in hilly districts.

c. Transport subsidy Scheme: Under this scheme, introduced in July 1971, industrial units set up in hilly, remote and inaccessible areas were entitled to 50 per cent transport subsidy on the expenditure incurred for movement of raw materials and finished goods to and from central selected rail heads to the location of the industrial units. The scheme is applicable to remote and inaccessible areas in Jammu and Kashmir and north-eastern hill states.

d. Other measures: the central government has also initiated a scheme at assisting state government in infrastructure development indentified no industry district upto one third of the total cost of such subject to a maximum of Rs 2 crores under this scheme, the central government has helped to develop many growth centres through infrastructure development.

State Government Incentives

State government have also offered incentives to attract private sector units to backward region. These incentives include provision of developed plots with power and water on a no-profit no-loss basis, exemption from payments of water charges for some years, interest-free loans on sales tax dues, exemption from Octroi duties, exemption from payment of property taxes for some years. preferential treatment for the purchase of stores for units located in backward areas subsidy on industrial housing scheme etc. In recent years more than half the assistance sanctioned by SFCs. SIDCO and SIICs s.enr to districts designated backward for the concessional finance schemes.

Concessional finance by major financial institution

The three major public sector financial institutions. viz, Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI) and the Industrial Credit and Investment Corporation of India (ICICI) provide concessional finance for industrial projects located in backward areas. These concessions relate to: a lower rate of interest on rupee loans (9.5 per cent as against 11.5 per cent), a longer period of repayment (generally 15 to 20 years, as against 10 to 12 years), participation in the risk capital or debenture issues, charging only half the normal rate of underwriting commission waiving of commitment charges, etc.

The above three public sector financial institutions have also taken many other steps for the development of backward areas. They have prepared, at their own cost, feasibility study of project which seem promising and they encourage prospective entrepreneurs to assess them and take interest in implementing them. These institutions run entrepreneurial training programmes for the benefit of small and medium entrepreneurs. Finally, IDBI has been instrumental in setting up several technical consultancy organizations (TCOs) throughout the country. These organizations provided technical consultancy service, so very necessary for the development of backward areas.

13.8 SUMMARY

Regional planning fits into this general classification but differs from other forms of planning in that it is specifically concerned with the regional level. This level lies somewhere between the national and local levels, and the region is a continuous and localised area at this level.

13.9 QUESTIONS

Q.1 What do you mean by regional planning ?

Q.2 Describe the magintude of regional imbalances in India.

Q.3 Explain the policy measures to remove regional disparities and incentives to promote investment in backward areas.

REFERNCE / SUGGESTED READING :

- Misra & Puri : Indian Economy, Himalaya Publishing House Pvt. Ltd., Mumbai

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ECONOMIC GROWTH AND SOCIAL ATTAINMENT – THE ROLE OF DEVELOPMENT STRATEGY

Structure

14.1 OBJECTIVE

After going through this lesson, you will be able to :

- Describe the nexus between economic growth and social attainment.
- Explain social Religion India.

14.1 INTRODUCTION

The realization that economic growth alone does not necessarily lead to an enhancement in the levels of social attainment of the population has been at the root of arguments that stress the need for an alternative yardstick to judge the development status of people. The evolution of concepts such as quality of life, basic needs and the like as well as the more recent discourse on human development during the 1990s must be seen in this spirit. The protagonists of alternative norms of judging development have also been at the forefront in advocating an enhanced role for the state in ensuring that the linkages between economic growth and human development are strengthened and fortified. Thus, whereas earlier the rationale for public provision of education, health and nutrition is argued in terms of merit goods characteristics of these goods, recent debates have stressed varied causes ranging from enhanced growth prospects by investing in human capital to ensuring social security and human rights.

The conventional approach, following Schultz (7967), has been to consider investment in education, health and nutrition as contributing to human capital formation which is considered a means to higher productivity and hence higher individual earnings. The onus for human capital formation rests on individuals as they undertake to invest in themselves in pursuit of self-interest. The role of the state is largely that of a facilitator and is supplementary to individual investment. State intervention is justified on the basis of the large positive externalities yielded by investment in these 'merit' goods. Thus, it is desirable that the government ensures minimum levels of consumption of these goods by all even if the main goal is enhancement of the growth rate in the economy. The links between economic growth and social attainment may be examined in this framework in terms of two distinct approaches to social security. The first, growth-media led security, lays considerable emphasis on the promotion of economic growth that enables the populations to take advantage of the potentialities released by greater general affluence. However, emphasis is laid on the fact that the pattern of growth should be such as to be enable a wide distribution of its benefit. The second approach, 'support-led security', consists of resorting to direct public support in fields such as, employment provision, income redistribution, health care, education and social assistance so that income and human deprivation may be removed without waiting for a rise in general affluence.

It is evident that in the human development paradigm, the onus of ensuring minimum levels of social attainments, particularly of the weak and disadvantaged, is on the state and public provision of social services is accorded a prime role in achieving such security. It is also recognized that economic growth does not automatically lead to higher social attainments and that the Pattern of growth as well as structural conditions could act against strengthening the links between economic growth and social attainments. Social attainments are valued not merely for their contribution to economic growth but also for their process and redistributive roles. Economic growth contributes to enhancing the levels of social attainments, which in turn leads to higher productivity and subsequently higher rates of economic growth. Relationship is justified on two grounds. The first is that acquisition of education, health and nutrition is considered an end in itself and hence there is no attempt to assess their impact on growth. Secondly, even where such analyses have been undertaken, the evidence points to the need to give importance to human development over economic growth.

14.3 ANALYTICAL FRAME

The links between economic growth (as reflected in the level of per capita income) and social attainments are examined within the human development framework and are expected to be influenced, inter alia, by three sets of factors: (a) structural factors, (b) household demand and (c) government Policy.

a) **Structural Factors**: The structural constraints prevailing in an economy could have their origins among others in economic, social and cultural factors. Each category of constraints, taken singly, could adversely affect the attainment of social goals. What is worse, they interact with each other in numerous ways to make the process of overcoming these structural barriers difficult, if not impossible by individuals. What can salvage the situation is the operation of government policy in favour of the poor through in order to be effective, it is necessary that such policy also be multi-faceted and integrated in nature so, as to reap the synergies accruing from co-ordinated action in diverse but inter-connected fields. It is such action that leads to the existence of an, egalitarian ethos ,in the economy, which facilitates the rapid expansion of basic education, health and nutrition. The egalitarian ethos prevalent in an economy could be considered to be a function of several factors of which we consider two to be particularly important, viz., (il distribution of assets and income, and &) social policy in favour of the poor and disadvantaged sections of society.

b) **Household Demand:-** The unequal distribution of income and assets results in the prevalence of a dualistic pattern in the economy with the division of households into two classes, viz., poor and rich. The poor do not have the ability to pay for social services available in the private sector. Hence, they would depend on public provision of such services as they are provided virtually free of cost. The rich, on the other hand, utilize private sector education and health services and make investments in human capital, which leads to a further accentuation of differences between the poor and rich households over time. The extent to which a widening of disparities is prevented or nullified depends on the effectiveness of social policy as a redistributive measure.

c) **Government Policy:-** Government policy can be considered under two heads, viz., economic policy and social policy. Economic policy includes monetary and fiscal policies. The need for a separate social policy arises on account of: (a) education and health being essential components enhancing human capabilities, the government needs to ensure a minimum level of consumption of these goods in the economics, and (b) sharp inequalities that exist in the distribution of assets and income as well as opportunities for enhancing one's capabilities. Social policy, under such circumstances, could be an effective redistributive measure undertaken by the government to mitigate the effects of structural inequities on the poor and other disadvantaged sections of the population such as women and in the Indian context, scheduled castes and scheduled tribes. In fact, it may be argued that the role of government policy could be the creation of an enabling environment that helps venerable sections to participate more effectively in various facets of economic activity. Social policy and fiscal policy together determine the allocation of revenue and capital expenditure to social services, which in turn determines the level and pattern of public provisioning of such services. In order that social policy be in keeping with its redistributive objective, public provisioning of social services needs to be directed primarily towards the poor.

A perusal of empirical evidence points to the fact that investment in social sectors yield better results when it is a part of a 'redistributive ethos' that permeates all public policies (Prabhu,1998). The pursuit of inegalitarian policies in general and the implementation of social sector Programmes as add-on components subsequently could prove to be self-defeating.

14.4 PRIVATE INCOMES: LEVEL, GROWTH AND DISTRIBUTION

The influence of the development strategy pursued in the country since the initiation of various Five-Year Plans was felt on the general level of affluence and social attainments in the country. It is well known that the objective of the First Five-Year Plan is poverty alleviation and employment. Social sectors are paid considerable attention with allocations for education and health being quite high. The choice of the import substitution strategy in the 1960s led to a diversion of attention from more human concerns such as employment and social attainments to the more impersonal realm of physical investment. The repercussions of this shift as reflected in level and distribution of incomes and social attainments are briefly highlighted below.

In what follows we review the main trends in per capita incomes, employment, poverty and asset distribution in India over the period 1970-77 to 1993-94 (the period of our subsequent empirical analysis) in order to gauge the impact of economic growth on the living conditions of the poor, which in turn influences their demand for social services and thereby their social attainments. It is important to place greater reliance on empirical facts rather than policy statements in various plans for obvious reasons. It is common knowledge that India's plan documents are replete with pro-poor statements though in reality, such rhetoric is not effectively translated into concrete policies that are effectively implemented in consonance with the requirements of the creation of an egalitarian ethos.

Per Capita Income: Level and Growth

The trend rate of growth of per capita income in the country is 2.29 per cent during the period 1973-74 to 1980-81 though it accelerated to 5.16 per cent during the period 1980-81 to 1994-95. A perusal of sectoral growth rates indicates that the rate of growth of the tertiary sector is the highest (over 6 per cent during 1980-81 to 1994-95) followed by the secondary sector (around 6 per cent) and agricultural sector (2.6 to 3 per cent). A fundamental feature of the process of economic growth in India is that it has been accompanied by incomplete structural transformation. Thus, though the contribution of the agricultural sector to the Gross Domestic Product (GDP) declined sharply, from 56.5 per cent in 1950-51 to 30.7 per cent in 1994-95, a similar change in the employment structure has not been evident. Thus, the share of agriculture in employment declined only from 75.6 per cent in 1961 to 64.7 per cent in 1993-94. The declining sectoral share of income even as the pressure of population on agriculture continues to remain high, implies a continuous deterioration in agricultural income per worker (Mahendra Dev, 1997).

Distribution

The distribution of income in the economy has not been egalitarian. The long-term rate of growth of GDP per worker in agriculture has been around 1 per cent per annum as against that in non-agriculture at 2 per cent per annum. As a consequence, the ratio of non-agricultural GDP per worker to that of agriculture increased from 2.9 in 7959-62 to 4.01 in 1,992-95 (Mahendra Dev, 1,997) . Thus, despite the gini-coefficient of consumption expenditure remaining virtually unaltered at around 0.28 for rural and 0.35 for urban population between 1,970-77 and 7993-94 (Tendulkar and Jain,1996) there could have been an increase in the rural-urban disparity. This is what is pointed out by Sawant and Mhatre (2000, p. 106) who, based on National Sample Survey data, indicate that the urban-rural disparity in consumption expenditure increased from 43 in 1972-73 to 1.63 in 1993-94. Thus, rural-urban disparity increased despite overall inequality remaining constant. Since the bulk of the population continues to reside in rural areas, a substantial proportion of the population is affected by the low rate of growth of rural incomes.

Also relevant is the fact that though the extent of poverty in the economy (Modified Expert Group estimates) declined from 54.88 per cent in 1973-74 to 35.97 per cent in 1993-94, the number below the poverty line has remained virtually unchanged at 320 million (Planning Commission, 1997). Given the stratified social structure in the economy, poverty incidence is higher among scheduled caste (SC) and scheduled tribe (ST) population. What is also disconcerting is that the high rate of growth of per capita income during the 1980s has not resulted in an accelerated decline in poverty for these groups, particularly in rural areas. Thus, between 1983 and 1993-94, the proportion of SC population below the poverty line in rural areas declined only from 53.12 per cent to 50.3 per cent (by 5.27 per cent). In the case of scheduled tribe population, the reduction is from 58.1 per cent to 54.2 per cent during the same period, which is a reduction of only 7.19 per cent. As compared to this, the incidence of rural poverty for the population as a whole declined from 45.6 per cent in 1983 to 37.27 per cent in 1993-94, which is a decline by 18.83 per cent (Hirway and Mahendra Dev, 2000, p. 70). Thus, not only is the incidence of income poverty higher among the socially disadvantaged groups, the rate of reduction in poverty is also lower. That this has happened in an era of high growth in per capita incomes is a pointed indication that the growth process has not resulted in an egalitarian distribution of its benefits.

The slow growth of agricultural incomes must also be seen against the background of halting and half-hearted implementation of land reforms, a major component of redistributive reform. Though land reforms contributed indirectly to check the increase in concentration of land and resulted in some redistribution of land to the scheduled castes and scheduled tribes, they failed to create an ‘egalitarian ethos’. Radical land reforms are no longer on the political agenda and there is general skepticism as to whether distribution of small parcels of land can solve the problem of rural poverty. However, what is surprising is that even more tractable issues such as consolidation of land and security to tenants are not taken up seriously, except in a few instances reflecting the low priority attached by the political leadership to the implementation of redistributive reform.

Employment

The incomplete structural transformation also has its implications for employment and incomes accruing therefrom. In the absence of access to productive assets, employment becomes a crucial necessity to ensure a minimal level of income. Gupta (1999) estimated that in 1997, the per cent contribution of employment to the increase in per capita consumption of the rural poor is as high as 82 per cent. Employment growth has however, not been significant and has fallen short of the rite of growth of labour force. The employment elasticity with respect to GDP in the agricultural sector declined over time from 0.58 in 1978-83 to about 0.22 in 1982-88 though it increased to 0.52 in subsequent years. Bhalla (1997) notes that in the post-1991 era, there is structural retrogression, with the agricultural sector experiencing an unusually large influx of people between 1987-88 and 1993-94. Thus, the thrust towards rural non-farm employment that is gathering momentum during the 1980s suffered a set-back. Sen (1997) argued that the increase in such employment during the 1980s is mainly on account of increased level of public development expenditure. A decline in-developmental expenditure since the onset of economic reforms in 1991 could therefore imply reduced momentum of employment generation in this sector.

Another feature has been the decline in employment elasticity in the manufacturing sector, which declined from 1.14 in 1973-78 to 0.33 in 1988-94 (Mahendra Deo,1997, p.223). The employment elasticities of the organised sector workers is already low, and only 8 per cent of total workforce is employed in the organised sector (IAMR,1999). Increasing resort to the putting-out system in manufacturing and contracting out of service in response to the ongoing process of globalization implies that the rate of growth of organised sector employment is bound to be sluggish. Given the high and rising employment elasticities in the construction and service sectors, it is likely that the share of the workers in the informal sector will rise even further in future. It is well known that in the informal sector, the wages obtained as well as the conditions of employment are unsatisfactory. In fact, in 1999-94, 49.4 per cent of casual workers in rural areas and 57 per cent of such workers in urban areas are below the poverty line (sharma,1999), starkly testifying to the inadequate incomes that they derive from such ‘employment’.

Overall, the rate of growth in private incomes has been uneven across rural and urban areas. The percolation of benefits to the poor has not been such as to improve income distribution. Though, on an average, economic growth has not contributed to an increase in Inter-personal inequality in income distribution as reflected in the gini ratio, the rising rural-urban disparity in income combined with the fact that the initial disparities in income is itself quite high indicates the progress that needs to be made in this respect. Recent empirical evidence (Rao et al, 1999) shows that changes in gini-coefficient could be explained satisfactorily by the rate of growth of per capita GDP. However, this may not necessarily result in higher social attainments unless there is a specific thrust to such goals by forceful public policy. It is also necessary to recognize that the economic performance of Indian states has exhibited marked diversity, which seems to have got accentuated in the post-reform period. In fact, states with low levels of income has also experienced low rate of growth in the post-reforms period (prabhu,1999). The translation of economic growth into social attainments thus would depend to a greater extent on social policy pursued by the government. It is to this aspect that we now turn.

14.5 SOCIAL POLICY IN INDIA

The above review indicated that neither the high rate of growth nor its Pattern has succeeded in making a substantial dent in the incidence of poverty suffered by the disadvantaged sections. The onus of remedial action to mitigate the effects of structural in equities, therefore, rest disproportionately on social policy implemented by the government. Unfortunately, the type of social policy has not been such as to meet this challenge. Social policy has been implemented by the government in a conceptual vacuum with little realization of its intrinsic and redistributive roles in a society riddled with structural inequities. Provision of social services has been considered more as constituting welfare and is never accorded the prime importance that the sector deserve. Thus lack of sensitivity as been compounded by the general milieu characterize by in egalitarian growth that implies that the impact that even such pure ‘welfare’ orientation can is dissipated. Some of these aspects are elaborated upon in what follows.

Public policy with respect to social sectors needs to be examined against the fact that the lever of social attainments in the country falls for short of what has been achieved in neighboring countries like Sri Lanka and south East Asian countries two or three decades back. The improvement in social indicators has also been less than satisfactory. Thus, as per UNDP (1996), the adult literacy rate improved from 34 per cent in 1970 to 51 per cent in 1993. This may be juxtaposed against the adult literacy rate of 77 per cent in Sri Lanka in 1970, which increase even further to 90 per cent in 1993. Thus, despite the recent claims based on National Sample Survey data for 1993-94 that the literacy rate has increased to 62 per cent, the rate is lower than what Sri Lanka had achieved over three decades ago. As a result of this slow progress, the magnitude of deprivation in the country is mind boggling.

As against the background of low attainment levels and gigantic levels of deprivation, what is expected is that social policy would be forceful and try to tackle deprivation at all levels. Instead what is in evidence is weak and ambivalent social policy reflected in row and ineffective public expenditure on social services.

Apart from incurring inadequate levels of expenditure on social services, the pattern of expenditure also leaves much to be desired. The expenditure is skewed towards higher level facilities located in urban areas, particularly in the health sector, while rural areas are relatively neglected (Prabhu and Chatterjee, 1993). Moreover, much of the social services expenditure is revenue expenditure that goes towards payment of salaries and maintenance of existing facilities. Thus, at the all States' level revenue expenditure has been in the range of 95 per cent of total expenditure on social services, 98 per cent of expenditure on education and 95 Per cent of health expenditure (medical, public health and family welfare). Even within revenue expenditure, most of the expenditure is accounted for by salaries, leaving minuscule amounts for books, equipment, drugs and the like (Prabhu, 2000). Under these circumstances, it is not very surprising that the quality of services rendered in public facilities is very poor leading to gross under-utilisation of even the existing social infrastructure. In the case of rural development programmes, the schemes cover a wide range from employment, basic needs, asset creation, employment generation and backward area development. But lack of inter-departmental and inter-ministerial co-ordination, it is not surprising that the functioning of these programmes does not make much of a dent on the living conditions of the poor.

An important factor that needs to be recognized is that the main responsibility for rural development and social service provision is with the state governments. The role of the centre is confined to providing direction and leadership and also finance for specific schemes. Taking overall social services, the share of the union Government in total expenditure is low. The levels of social attainment as well as the level of government expenditure incurred on social Sectors in real capita terms varied widely across states. The levels of social sector expenditure are influenced by per capita income levels as well as political commitment towards social sectors, the relative importance of these factors varying across states. Thus, during 1991-92 to 1996-97, Maharashtra had the highest real per capita expenditure on social services at Rs. 202. However, states with high per capita incomes such as Punjab and Haryana reported much lower levels, Rs. 176 and 189 respectively.

However, even in states that incur higher levels of per capita expenditure on social services, its pattern leaves much to be desired. The states seem to emphasise different components of social security with no comprehension of the synergistic relationship between various aspects of such security. In fact, it may be superfluous to talk of social policy, as what is in existence is policy regarding individual social sectors implemented independently over a large number of departments and ministries with little or no co-ordination across them. Is Even when they are considered in the aggregate neither are allocations adequate with respect to the requirements nor is the pattern of allocation in tune with social objectives that are loftily proclaimed in various plan documents. Compounding this problem is the fact that a large proportion of expenditure on social sectors is incurred by the state governments whose commitment to enhancement social capabilities of the masses varies a great deal.

Impact on Social Attainments

The combined effect of level and growth in per capita income, its distribution and political commitment to social goals are reflected in social attainments in the country.

14.6 SUMMARY

1. Without the enancement in the levels of social attainment of the population, the realisation of economic growth is not possible.
2. The link between economic growth and social attainments are examined with the human development framework and are expected to be influenced inter alia by three sets of factors : (a) structured factors (b) household demand and (c) govt. policy.
3. An important factor that needs to be recognised is that the main responsibility for rural development and social services provision is with the state govts.

14.7 QUESTIONS

Q.1 Describe the nexus between economic growth and social attainment.

Q.2 Explain the social policy in India.

Q.3 How the objective of social goals affects the main motive of economic growth ?

GENDER RESPONSIVE BUDGETING AND GENDER EQUITY

Structure

15.1 OBJECTIVE

After going through this lesson, you will be able to :

- Understand the meaning of Gender Responsive budgeting.
- Describe the ways for achieving gender equity through gender budgeting.

15.2 INTRODUCTION

Gender inequalities and disparities are among the most serious and persistent problems facing the Indian economy and society[1]. Special efforts were taken to engender the Eleventh Plan by requiring that adequate provisions be made in policies and schemes across Ministries and Departments to achieve gender equity and entail 'strict adherence to Gender Budgeting across the board'. Concerned about the many faces of vulnerability and deprivation experienced by women, the Twelfth Plan identifies seven key elements for achieving gender equity. One of these seven key elements is Gender mainstreaming through Gender Budgeting. The Plan envisages the engendering of development planning and inclusion of gender concerns at all levels of policy and especially in the operation of flagship programmes.

15.3 MEANING OF GENDER RESPONSIVE BUDGETING

Gender Responsive Budgeting or Gender Budgeting is not just about the Budget. It is a continuous process of incorporating a gender perspective over the entire cycle of policy making and implementation. In other words, it is a tool that can be used to ensure that the needs and priorities of women (and men) are addressed while drafting any legislation, formulating policy, conceptualizing plans, formulating and implementing programmes and schemes, allocating resources and budgets and assessing impact. The purpose of Gender Budgeting is to achieve gender justice in policy making and implementation as well as gender-just utilization of all public funds in order to attain equitable outcomes. It requires identifying taking corrective actions that are required to ensure that the needs of women and girls as well as men and boys are met by Government Policies, Plans, Programmes, Schemes and Budgets. If there are barriers that prevent women from availing of benefits of Government Programmes and Schemes, those constraints must be identified and addressed.

Those who are the most vulnerable and marginalized should have first charge on the use of public funds, so that they benefit from development processes. Hence, Gender Budgets are not separate budgets for men and women. Instead, allocation of all public funds should be such that they benefit women and girls as well as men and boys. Gender Responsive Budgeting is not a one-time activity. It is a continuum or an ongoing process of using a gender lens or perspective while formulating legislation, policies, programmes, schemes, as well as while implementing them and reviewing them with the objective of achieving equitable outcomes.

15.4 IMPLEMENTING GENDER BUDGETING : PROGRESS AND CHALLENGES

Research on Gender Budgeting in India was initiated by academics who worked on the subject with the support of UNIFEM and the National Commission for Women. In December 2003, the National Commission for Women organized a

National Consultation to discuss issues emerging from a paper entitled “The Budget: A Gender and poverty Sensitive Analysis”. Based on the discussions, NCW sent a memorandum to the Finance Minister before Budget 2004 listing eleven areas that needed priority consideration while presenting the Budget-2004. Actions required were specified for each of these.

The first time Gender Budgeting was mentioned in the Budget Speech by the Finance Minister was when Shri P. Chidambaram referred to it in Budget Speech 2004-05, in which he spoke of women’s groups urging him to consider Gender Budgeting. “This means that the budget data should be presented in a manner that the gender sensitivities of the budgetary allocations are clearly highlighted. An expert group on Classification System of Government Transactions has submitted its report on July 6, 2004. It has recommended appropriate systems for data collection and representation in the budget”, he said. The following year a Gender Budgeting Statement was prepared as part of the Budget.

Meanwhile, the planning Commission introduced the Women’s Component Plan (earmarking 30% of funds in all women-related sectors) in the Ninth plan, and subsequently reinforced its commitment to Gender Budgeting to establish is gender-differential impact and to translate gender commitments into budgetary commitments in the Tenth plan. The fact that gender equity entails strict adherence to Gender Budgeting across the board was stressed in the Eleventh plan.

Union Budget 2005-06 made an initial effort at presenting budget provisions amounting to Rs 14,379 crores under 10 demands for grants in a separate statement (statement 19), meant to reflect allocations that are substantially meant for welfare of women and children. Union Budget 2006-07 refined this further by dividing the Gender Budgeting Statement (Statement 20), or the budget provisions for schemes that are substantially meant for the benefit of women into two parts. Part A details schemes in which 100% provision is for women. Part B reflects schemes where the allocations for women constitute at least 30% of the provisions. Demands for grants from 11 Ministries/Departments were reflected in part A and from 13 Ministries/ Departments in part B or in other words; the statement covered 24 demands for grants from 18 Ministries/ Departments and additionally five Union Territories. The total outlay budgeted for the schemes were Rs 28,737 crores.

Gender Budgeting Statements have been presented as part of the Union Budget each year since then, and the 2O12-13 Gender Budgeting Statements (Statement 20) included demands for grants from 16 Departments/Ministries for schemes with 100% provision for women (Part A) and demands for grants from 23 Departments/ Ministries for schemes where the allocations for women constitute at least 30% of the provisioned amount. The total outlay budgeted for these schemes were Rs 88,142.80 crores.

The list of Department/Ministries reporting schemes with 100% provisioning for women budgeted Rs 22,968.93 crores for schemes reported by Department of Agricultural Research and Education, Department of Telecommunications, Department of Health and Family Welfare, Ministry of Home Affairs, police, Department of School Education and Literacy, Department of Higher Education, Ministry of Micro, Small and Medium Enterprises, Ministry of Minority affairs, Ministry of Overseas Indian Affairs, Department of Rural Development, Department of Science and Technology, Department of Biotechnology, Ministry of Social Justice and Empowerment, Ministry of tribal Affairs and Ministry of Women and Child Development as well as five Union Territories.

CHALLENGES

Statement 20 has been critiqued for several reasons. Mistakes were (and still are) made in reporting demands for grants in Gender Budget Statements. Firstly, schemes that are meant for women and children cannot be apportioned to Part A of the Statement as the funds are not only utilized or 100% allocated for women.

Second, the assumptions made by Ministries/Departments while apportioning funds to part B of the Statement remain unclear.

Third, allocations for women constitute at least 30% or more of the provisioned amount in a large number of programmes and schemes that are not reported in the Gender Budget Statement.

Fourth, there are several schemes in which allocations for women constitute less than 30% of the provisioned amount. For all these reasons, it is erroneous to argue that only 5 or 6% of the Budget reaches women.

15.5 ACHIEVING GENDER EQUITY THROUGH GENDER BUDGETING : ACTIONABLE RECOMMENDATIONS

The Twelfth Plan states that the process of Gender Budgeting will be further strengthened and its reach extended to all Ministries, Departments and State governments.

Following actions are required to attain the minimum necessary conditions for enabling achievement of gender equity through Gender Budgeting:

1. Each Ministry and Department must integrate gender equity into its Strategic plan, Annual plan, vision, mission objectives, action points and success indicators of the annual Results Framework Document and in Statement 20 and the Outcome Budget. Gender equity cannot remain an add-on or afterthought.

2. Second, the Gender Budgeting Cells must be activated and strengthened. Each Gender Budgeting Cell must conduct a situation analysis and apply the Tools and Entry Points to the major programmes and schemes of the Ministry to determine the factors constraining women from benefiting from these schemes in the most deprived districts and blocks.

3. Third, interventions that enable the removal of these constraints and barriers must be identified and implemented.

4. Fourth, impact with regard to progress towards achieving gender equity must be established and reported and the learning shared across Ministries and Department.

5. Fifth, a Gender Task Force must be constituted to review the functioning of Gender Budget Cells. The Task Force must have representation from the Ministry of Finance, Planning Commission and Ministry of Women and Child Development as well as practitioner and experts on gender issues, deprivation and venerability.

6. Finally, collection and reporting of data must be sex disaggregated.

15.6 SUMMARY

Five years ago the Eleventh plan had also committed to strict adherence to Gender Budgeting across the board for achieving gender equity. While the Twelfth Plan too uses the language of equity and inclusion, the challenge is to move beyond words to enabling actions and interventions that bridge gender gaps and inequalities in their multiple facets and dimensions.

Foot Notes

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15.7 QUESTIONS

Q.1 Define gender budgeting?

Q.2 Suggest the ways for acheiving gender equity through gender budgeting.

Q.3 Elaborate the evolution of gender budgeting in India.

FEDERAL FINANCES – RESPONSIBILITIES AND RESOURCES, DIVISION OF FUNCTIONS, TRANSFER OF RESOURCES THROUGH 12th AND 13th FINANCE COMMISSION

Structure

16.1 OBJECTIVE

After going through this lesson, you will be able to :

- Understand the term Federal Finance.
- Explain transfer of resource through the 12th Finance Commission in 2005-10
- Thirteenth Finance Commission Award Period.

16.2 INTRODUCTION

Governments may be classified into unitary and federal depending upon the concentration and distribution of power and the relation between the central and local authorities. Under the unitary system, whole power of government is conferred by the constitution upon a single central organ and local governments derive whatever authority the possess from this central organ. This system of government is prevalent in the UK, France, Germany, Austria, arid most of the countries of Asia. As against the unitary system, federal system provides for a distribution and division of governmental power between the Central government and the governments of the individual Stales of which the federation is composed .The general principle of division of power is such that affairs of common interest to the liberation as a whole and thus requiring uniformity of regulation are placed under the Central government, while all local affairs are W lo the State governments . The two classic examples of federal system are the USA and Canada. After Independence, India also opted for a federal system of government on the lines of the USA and Canada.

Federalism and Federal Finance

The distribution of powers in countries adopting the federal system of government defines the financial relations between the Central and the State government. However, there are some special problems that have to be grappled within federal financial system. These are : (i) the sources of revenue assigned to the Centre and the States should be **adequate** to enable them to fulfil the functions allotted to them. However, in modern states, it is frequently not possible to ensure this and it is highly unlikely that the needs and resources of each government will be exactly balanced. Therefore, it becomes necessary to evolve a mechanism of adjustments so that shortages and surpluses are evened out; (ii) each government should have **independent financial authority,** i.e., each government should have separate sources of revenue, powers to levy taxes and borrow, and to incur expenditure to carry out its functions effectively; and (iii) a certain **uniformity** should be ensured in all areas of the federation so that no preference is given to one State over the regards payment of federal taxes.

Division of Resources

We have discussed the division of powers to levy taxes between the Central and the State governments in the chapter on ‘The Indian Tax Structure’. The principle that has been followed in deciding this division is that taxes likely to have an effect upon the economic life of the country as a whole are levied by the Centre while taxes which have no effect in States other than the ones from which they are collected are levied by the

States. However, **since resources of the Central government yield a substantial surplus, while State governments experience heavy deficits, a mechanism of transfer of resources from the Centre to the States has been provided.** In addition to this, Article 275 of the Constitution provides for grants-in-aid to the States in need of assistance. Different sums can be fixed for different States, so that the weaker States can be given specific assistance to meet the necessary expenditure in the proper discharge of their duties to the people. Article 282 provides for grants by the Union government for any public purpose. Under Article 275 grants-in-aid are fixed on the advice of the Finance Commission, while under Article 282 grants can be fixed by the Central government on its own discretion.

The State governments also borrow from the Centre to carry out the various developmental and rehabilitation programmes. Thus **transfer of resources from the Centre to the State governments can be considered under three heads - (i) share in taxes and duties, (ii) grants, and (iii) loans.**

Transfer of Resources

Resources transferred from the Centre to the States have increased continuously during the planning period. In fact, resources transferred during each plan in nominal were twice or more as compared to the previous plan. The share of these transfers in aggregate expenditure of the State governments has varied between 35 per cent and 45 per cent. This clearly brings out the heavy dependence of the State governments on the Centre.

Over the years the largest transfer from the Centre to the States has been via taxes and duties followed by loans and grants in that order.

16.3 TRANSFER OF RESOURCES THROUGH THE TWELFTH FINANCE COMMISSIONS 2005-10

Recommendation of the twelfth Finance commissions covered the period 2005-10. The commission was asked to make recommendations on the following matters.

a) The distributions between the union and the states of the net proceeds of taxes which are to be divided between them under Chapter I of part XII of the

Constitution and the allocation between the States of the respective shares of such proceeds;

b) The principles which should govern the grants-in- aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under Article 275 of the Constitution for purposes other than those specified in the provision to clause (1.1 of that article:

c) The measures needed augment the Consolidated Fund of a State to supplement the resources of the panchayats in the State on the basis of the recommendations made by the Finance Commission of the States;

d) The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

Distribution of Tax Proceeds: Vertical Devolution

Faced with serious resource constraint many States had asked the Twelfth Finance Commission to increase the share of the States in the divisible pool of Central taxes from 29.5 per cent as recommended by the Eleventh Finance Commission to at least 33 per cent. Arguing that grants provide a more effective mechanism for achieving the equalization objective, the Twelfth Finance Commission recommended an increases in the share of the states by one per cent, from 29.5 per cent to 30.5 per cent in the shareable pool of Central taxes.

Distribution of Tax Proceeds: Horizontal Devolution

The Eleventh and the Twelfth Finance Commissions has also used a unified formula tor horizontal devolution. In determining the criteria and the weight age to be accorded to these criteria, both the Eleventh and the Twelfth Finance Commissions claim to have followed two basic principles at equity and ‘fiscal efficiency’. The principle of equity implies that, as a result of revenue-sharing the resource deficiencies across the States are evened out. Thus this principle makes up for resource deficiencies. The criteria and the relative weights adopted by the Twelfth Finance Commissions are given in Table 1. Population has always been one of the criteria lot determining the share of States in tat proceeds – only the weights have kept : changing, Area was introduced by the Tenth Finance Commission. The logic is that States which have a large area and low density of population have to incur heavy expenditure for providing basic administrative infrastructure. The cost is very high compared to a State with an area of similar size but a high density of population. From a weight of 5 per cent in Tenth Finance Commission. the weight of area has been hiked to 7.5 per cent by the Eleventh Finance Commissions and further to 10 per cent by the Twelfth Finance Commission.

Table 1

Criteria and Relative Weights for Determining Inter Se Share of States ***(per cent)***

Criteria	*Relative Weight (Per cent)*	
	EFC	*TFC*
1. Population	10.0	25.0
2. Income (Distance Method)	62.5	50.0
3. Area	7.5	10.0
4. Index of Infrastructure	7.5	—
5. Tax Effort	5.0	7.5
6. Fiscal Discipline	7.5	7.5
Total	100.0	100.0

Source : ***Report of the Eleventh Finance Commission*** **(for 2000-2005). July 2000, Table 6.2 p. 58; and** ***Report of the Twelfth Finance Commission*** **(for 2005-2010). Table 7.5 p 133**

The availability of infrastructure plays a crucial role in attracting investment, and States which are backward with low index of infrastructure need to be helped so that they are able to come up. Accordingly, the Eleventh Finance Commission raised the weight of the index of infrastructure from 5 per cent in the Tenth Finance Commission Report to 7.5 per cent. However, this index of infrastructure was dropped altogether by the Twelfth Finance Commission on the ground that it is correlated with the income distance criterion. To evolve a suitable structure of incentives in fiscal transfers, the Tenth Finance Commission had introduced ‘tax effort’ as a criterion for distribution of tax proceeds. The Eleventh Finance Commission went a step further and, in addition to tax effort, introduced ‘fiscal discipline’ also as a criterion. The tax effort and the index of fiscal discipline, together, were given a weight of 12.5 per cent, which was increased to 15 per cent by the Twelfth Finance Commission. As can be seen from Table 54.2, the largest weightage of 62.5 and 50 per cent has been given to the income-distance criterion by the Eleventh and Twelfth Finance Commissions respective.

The total share of Stares in Central tax revenues awarded by the eleventh and twelfth Finance Commission Finance Commissions has been 3,76,378 and Rs 613,122 crores. As far as the actual share of different States in tax proceeds is concerned, the States of Uttar Pradesh, Bihar, Madhya Pradesh and West Bengal figure in the first four places in the awards by 12th Commission. The actual and relative shares can be known from Table 2.

Table 2

Inter se Share of States (Occupying First Four Places) in Central Tax Revenues under Eleventh Finance Commission (EFC) and Twelfth Finance Commission (TFC) Award

State	*EFC*		*TFC*	
	Actual Share (in ₹ crore)	*Per cent Share*	*Actual Share (in ₹ crore)*	*Per cent Share*
Uttar Pradesh	**74,502**	**19.80**	**1,18,085**	**19.26**
Bihar	**54,935**	**14.60**	**67,626**	**11.03**
Madhya Pradesh	**33,259**	**8.84**	**41,140**	**6.71**
West Bangal	**30,540**	**8.12**	**43,285**	**7.06**

***Source :** (i) Report of the Eleventh Finance Commission (2000-05), July 2000. Table 6.3 p. 59 and Annexure VI. 8. p. 219*
(ii) Report of the Twelfth Finance Commission (2005-10), Table 7.3 p. 133.

GRANT IN AID

The grants-in-aid may be given to the States to cover the assessed deficit on non-plan revenue account, after devolution of taxes and duties. Secondly grants in aid may be recommended for the up gradation of the standard of administration of the States. The idea is to correct the disparities in the availability of administrative and social services between the developed and the less developed States so that a citizen, irrespective of the State boundary where he lives, is provided with certain basic minimum standards of such services. Moreover, grant-in-aid may be recommended by the Finance Commission to provide assistance to a State to meet expenditure on account of any special problems peculiar to the State.

Non-Plan Revenue Grants. The Finance Commissions have generally avoided giving grants to fill up the deficits arising out of deficits in the revenue components of the plans. This is due to the reason that this task is being looked after by the Planning Commission. Accordingly, the Finance Commissions have concerned themselves with non-plan revenue grants only.

In significant departure from previous Finance Commissions with reference to grants-in-aid the Twelfth Finance Commission raised the share of grants in total transfers to nearly 19 per cent from 13.5 per cent recommended by the Eleventh Finance Commission. The share of taxes correspondingly declined from 86.5 per cent to 81.1 per cent as can be seen from Table 3.

Table 3

Per cent Share of Taxes and Grants-in-Aid in Total Transfers

Commission	*Period*	*Grants-in-aid*	*Taxes*
Tenth	1995-00	8.96	91.04
Eleventh	2000-05	13.47	86.53
Twelfth	2005-10	18.87	81.13

Source : Report of the Twelfth Finance Commission (2005-2010).
Table 10.1 p. 175

This increase in the share of grants was explained on the basis of their greater certainty and their capacity to be targeted better. However, the normatively determine grants meant to cover the non-plan revenue deficit of the States accounted for only 40 per cent of the total grant. The absolute amount of grant to meet this post-devotion non-plan revenue deficit for all the States was Rs 56,856 crores. The Twelfth Finance Commission also recommended grants to States for the upgradation of services in the social sectors of education and health and additional grants-in-aid for certain common and specific needs of the States. A total of eight States were recommended for grants for the education sector and seven States for grants for the health sector. In contrast to the Eleventh Finance Commission recommendations, the Twelfth Finance Commission recommended an additional separate grant at Rs 20,000 crores for the maintenance of roads and buildings. Additional grants-in-aid were recommended for maintenance of forests and heritage conservation as well as for taking care of State specific needs.

According to K.K. George, 60 per cent of the grants are special purpose grants the allocations of which are arbitrary, conditions and devoid of and transparent criteria. Such grants, in K.K. George's opinion, have distorted the spirit of Article 275 of the constitution according to which the statutory grants through the Finance Commissions should be residuary, by and large automatic and unconditional.

Calamity Relief

Natural calamities of one type or the other have been occurring at a rather regular frequency in the country. For meeting the expenditure on these calamities, the Ninth Finance Commission adopted an entirely different approach and created a calamity Relief Fund (CRF) for each State to which the Centre and the State were to contribute in a ratio of 75:25.

The Twelfth Finance Commission recommended the continuation of the scheme of Calamity Relief Fund with contributions from the Centre and the States in the ratio of 75:25 as before. The amount of CRF for 2005-10 was worked out at Rs 21,333.33 crores. The Twelfth Finance Commission also agreed to the suggestion made by the States to continue the National Calamity Contingency fund (NCCF) with a core corpus of Rs 500 crores. The definition of natural calamity was widened to include landslides, avalanches, cloud bursts and pest attacks as well.

Local Bodies

The rural and urban local bodies, that is, the panchayats and the municipalities, were in existence even before the 73rd and 74th Constitutional amendments. Every State had enacted suitable legislation for devolution of functions, powers and responsibilities to these bodies, including the power to raise resources. The Constitutional changes 73rd and 74th amendments - carried out in 1993, however, envisage the panchayats and municipalities as institutions of self government.

Accordingly, there is a need to transfer resources to these local bodies to enable them to carry on their work. Eleventh Finance Commission was the first Commission which was asked to make recommendations in this respect. The Eleventh Finance Commission provided that the grants for local bodies may be distributed among the States in the following criteria and weights: (i) 40 per cent on the basis of population; (ii) 20 per cent on the basis of index of decentralization; (iii) 20 per cent on the basis of the distance of State's per capita income from the per capita income of the highest ranked State (in terms of per capita income); (iv) 10 per cent on the basis of revenue effort: and (v) 10 per cent on the basis of geographical area.

The Twelfth Finance Commission retained the criteria of: (i) population: (ii) geographical area and (iii) distance from highest per capita income state alongwith the weights as recommended by the Eleventh Finance Commission for the inter se allocation of the grants-in aid among the States to supplement the resources of the local bodies (municipalities and panchayats). The Twelfth Finance Commission, however, did not consider it necessary to include the index of decentralization since most of the indicators used by the Eleventh Finance Commission for its measurement like enacting State / panchayat/municipal legislation, holding elections etc. had already been taken care of. In its place an index of deprivation was included to take into account intra-State disparities pertaining to certain minimum needs of the population like drinking water and sanitation.

The criterion of revenue effort which had been given a weight of 10 per cent by the Eleventh Finance Commission was included by the Twelfth Finance Commission with a weight of 20 per cent. The Commission recommended a total grant of Rs 20,000 crores for the panchayats and Rs 5.000 crores for the municipalities for the entire time period 2005-10.

Dept Relief

The State governments are reeling under the burden of debt. The Tenth Finance Commission had recommended a scheme of general debt relief for all States linked to fiscal performance. The Twelfth Finance Commission has estimated the total outstanding debt of States including short-term borrowings at Rs 8,65,859 crores at the end of March 2004. The debt crisis faced by the States is apparent from the, sharp escalation in the Debt-Gross State Domestic product (GSDP) ratio from 21.73 per cent in 1997-98 to 3 1.15 per cent in 2002-2003. According to the Twelfth Finance Commission this period was probably the worst for the States in terms of their finances. An increasing proportion of the borrowings of the States were used to finances interest payments on earlier borrowings besides revenue expenditures largely an account of salaries. The combined debt of the Centre and the States as d proportion of the GDP rose from 56.5 per cent in 1996-97 to 82.S per cent in 2004-05. It was only to be expected that the twelfth finance commission just like the earlier ones would be asked to look into matters of long-term debt sustainability. However, its terms of reference very clearly expected it to recommended only those measures which would be consistent with macroeconomic stability and took into account the performance of the States in areas of human development and investment climate.

The Twelfth Finance Commission in its focus on the restructuring of the State finances recommended the States to ser fiscal limits similar to the ones prescribed by the FRBM Act for the Central Government. In fact, It suggested that the debt relief scheme for the States should be made available only if they enact the prescribed legislation for fiscal responsibility. As part of restructuring, the Twelfth Finance Commission also recommended that the States reduce their dependence on the Centre and instead make greater use of borrowings from the market. According to Sridhar, this recommendation will have disastrous consequences for the weaker States as they will not be able to raise funds at competitive rates.

Most of the recommendations pertaining to the restructuring of State finances, particularly the fiscal responsibility legislation for the States, may be seen as an attempt to put the burden of fiscal correction primarily on the states. In K.K. George's opinion, it is actually the States who should be rightfully aggrieved because they have suffered due to the neo-liberal policies adopted by the Centre. As part of such policies, rates for all major taxes were reduced resulting in a significant reduction in the tax GDP ratio. From the point of view of the States, the failure on the part of the Centre to mobilize adequate resources implied that their share shrunk as well. The increasing indebtedness of the States is thus to be explained mainly by the Centre's fiscal policy and not fie fiscal irresponsibility on the part of the States as is generally understood.

TOTAL TRANSFERS TO STATES

Under the recommendations of the Eleventh Finance Commission, the total transfer of resources fr.om the Centre to the States over the period 2000-05 was fixed Rs 4,34,905, 40. The Twelfth Finance Commission recommended the total transfer of resources from the Centre to the States for the period 2005-10 to be fixed at Rs 7,55,751.62 crores. The shares of taxes and duties, and grants-in-aid in the total transfers of resources from the Centre to States are as given in Table 4.

Table 4

Total Resource Transfer to States (The Eleventh Finance Commission's Award for 2000-05 and the Twelfth Finance Commission's Award for 2005-2010)

Item	*EFC* Amount (₹crore)	*TFC* Amount (₹crore)
I. Central taxes and duties	3,76,318.01	6,13,112.02
II. Grants-in-aid	58,587.39	1,42,639.60
of which		
1. Non-plan revenue deficit	35,359.07	56,856.00
2. Upgradation and special problems	4,972.73	44,784.00
3. Local bodies (Panchayats and Municipalities)	10,000.00	25,000.00
4. Relief expenditure	8,255.69	16,000.00
III. Total (I + II)	4,34,905.40	7,55,751.62

Source : Report of the Eleventh Finance Commission, (for 2000-05) Table 10.5, pp. 98-9 and Report of the Twelfth Finance Commission (2005-2010), Table 10.1, pp. 175.

INCENTIVES FOR FISCAL REFORMS

In its Supplementary Report, the Eleventh Finance commission recommended monitorable fiscal programmes for all States. It also devised a system of incentives to be granted out of an incentive fund for the States that adopt a monitorable fiscal reforms programme. The eligibility criteria for any State to claim a stake in the incentive fund would be a single monitorable fiscal target. The incentive fund methodology would work at cutting down fiscal deficit to manageable levels. Each State would be expected to achieve a minimum reform of 5 per cent in the revenue deficit as a portion of the receipt each year till 2004-05. The Eleventh Finance Commission stated said the the incentive fund formula was aimed at phasing out revenue deficit by 2004-05. As per its recommendations, the programme proposed equal weightage to revenue-raising and expenditure-control measures.

As part of its terms of reference the Twelfth Finance Commission was expected to review the Fiscal Reform facility (FRF) introduced by the Central Government on the basis of the recommendations of the Eleventh Financial Commission. The basic objective for which the facility was created was the elimination of the revenue deficit of the States so that surpluses became available for building capital assets. The Twelfth Finance Commission, on the basis of its evaluation, recommended the discontinuation of the Fiscal Reform Facility because of the following reasons.

First, of all, contrary to the projections of the Eleventh Finance Commission, the fiscal deficit of the States actually increased instead of decreasing in 2003-04 in relation to 1999-2000. The States' revenue deficit no doubt decreased but only marginally. The Twelfth Finance Commission did concede that probably there were other factors at work a well during this period. Nevertheless, it expressed the opinion that the Fiscal Reform Facility did not play a significant contributory role in the improvement of States' finance during 2000-2005.

Second., the magnitude of the Fiscal Reform Facility incentive fund was not attractive enough to counter the short-term "srewards" of imprudent fiscal behaviour of the States.

Third, the operation of such a facility necessarily requires the exercise of discretion in the application of the various parameters of conditionality, which in the opinion of the Twelfth Finance Commission, is best avoided. Yet, the Twelfth Finance Commission did suggest the enactment of a fiscal responsibility legislation by each State. Some critics have argued that this might interfere with the autonomy of the States and increase their dependence on the Centre.

16.4 THIRTEENTH FINANCE COMMISSION AWARD: PERIOD

In terms of the Presidential Order dated November 13, 2007, the Thirteenth Finance Commission was asked to make recommendations relating to tax devolution between the Centre and States; grants-in-aid to States; and measures needed to augment the consolidated fund of a State to supplement the resources of the panchayats and municipalities. In addition to the above, the Commission has also been mandated to review the state of finances of the Union and States, keeping in view, in particular, the operation of the State's Debt Consolidation and Relief Facility 2005-2010 introduced by the Central Government on the basis of the recommendations of Twelfth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth. Subsequently, the Commission was given additional terms of reference including the mandate to review the road map for fiscal adjustments and suggest a suitably revised one with a view to maintaining the gains of the fiscal consolidation through 2010 to 2015, particularly considering the need to bring the liabilities of the Central government on account of oil, food and fertilizer bonds into the fiscal accounting, and the impact of various other obligations of the central government on the deficit target.

Sharing of Union Tax Revenues

The Thirteenth Finance Commission has pointed out that there has been a significant increase in the tax revenue of the Centre, particularly from royalties and the telecommunication sector. In the future, the resource position of the Centre is expected to improve on account of the buoyant non-tax revenues. Moreover, the buoyancy of Central taxes exceeds the buoyancy of combined tax revenue. The States, expenditure is also likely to increase considerably over the next few years on account of increasing burden of centrally sponsored schemes like Sarva Shiksha Abhiyan (SSA), Right of Children to Free and Compulsory Education (RTE), etc., as they are required to put in a 'matching contribution' in most cases. Provision of rural and urban infrastructure, protection of environment, implementation of the recommendations of the Sixth Central Pay Commission, etc., are expected to push up expenditures of the States still further. On account of all these reasons, the Thirteenth Finance Commission has increasable the share of the States in net proceeds of shareable Central tares lo 32 per cent. For the purpose of determining the States share in Central taxes, the Thirteenth Finance Commission has treated the proceeds of service tax as part of the divisible pool.

However, the Commission has not accepted the demand of the States for inclusion of cesses and surcharges imposed by the Centre in the divisible pool. At the same time, it recommends that the Centre review the current surcharges and cesses with a view to reducing their share in the gross tax revenues.

The Eleventh Finance Commission had, for the first time, recommended an indicative ceiling on all revenue account transfers from the Centre to the States at 37.5 per cent of the Centre's gross tax revenue receipts. This ceiling as raised to 38 per cent by the Twelfth Finance Commission this ceiling has been raised further to 39.5 per cent by the Thirteenth Finance Commission.

Criteria for Tax Devolution

The Thirteenth Finance Commission argues that its recommendations. on tax devolution are based on the considerations of "need, fiscal deficiency and adequate incentivisation for better performance." The criteria and weights for tax devolution as recommended by the Commission are given in Table 5.

As is clear from Table 4 and Table 5, the Thirteenth Finance Commission has accorded the same weightage to population (25 per cent) as was done by the Twelfth Finance Commission. The weightage of area also remains the same at 10.0 per cent. The index of fiscal discipline was introduced by the Eleventh Finance Commission and was continued by the Twelfth Finance Commission. Both the Commissions also took into account the criterion of 'tax effort'. The combined weightage of these two criteria was 12.5 per cent in the Eleventh Finance Commission and 15.0 per cent in the Twelfth Finance Commission. The Thirteenth Finance Commission opines that 'there is a strong case to incentivise States following fiscal prudence, particularly in the context of the need to return to the path of fiscal correction. Accordingly, it has assigned a weight of 17.5 per cent to fiscal discipline.

Table 5

Thirteen Finance Commission : Criteria and Weight for Tax Devolution

(per cent)

Criteria	*Weights*
1. Population (1971)	25.0
2. Area	10.0
3. Fiscal Capacity Distance	47.5
4. Fiscal Discipline	17.5

Source : Government of India. *Report of the Thirteenth Finance Commission* (for 2010-15). Table 8.1, p. 122

The criterion 'fiscal capacity distance' is the new criterion being adopted by the Thirteenth Finance Commission. It is somewhat akin to the income distance criterion used by the Twelfth Finance Commission but there is an important difference. The income distance criterion used by the Twelfth Finance Commission, measured by per capita GSDP, is a proxy for the distance between States in tax capacity, When so proxy, the procedure implicitly applies a single average tax-to-GSDP ratio to determine fiscal capacity distance between States. The Thirteenth Finance Commission recommended, instead, the use of separate averages for measuring tax capacity, one for general category States and another for special category States. The justification for doing so is that between the two categories, a single average applied (implicitly) to GSDP does not accurately capture the fiscal discipline between the two groups.

Fiscal distance is obtained for each State by the distance of its estimated per capita revenue from the estimated per capita revenue of Haryana, the second highest in the per capita income ranking after Goa. The distance so computed for all States, barring Haryana and Goa, defines the per capita revenue entitlement of each state based on fiscal distance. For Haryana and Goa, a revenue entitlement of 100 per capita has been assigned. These per capita entitlement are then multiplied by the respective 1971 population figures of each State to arrive at the share of each State in tax devolution. As is clear from Table 54.6, the Thirteenth Finance Commission has assigned a weight of 47.5 per cent to the fiscal capacity distance criterion.

On the basis of the four criteria defined in Table 54.6, the maximum share in all shareable taxes (excluding service tax) is of Uttar Pradesh (19.677 per cent) followed by Bihar (10.917 per cent), West Bengal (7.264 per cent), Madhya Pradesh (7.120 per cent) and Andhra Pradesh (6.937 per cent) in that order. The case of service tax is taken up separately. The maximum share here also is of Uttar Pradesh (19.987 per cent) followed by Bihar (11.089 per cent), West Bengal (7.379 per cent), Madhya Pradesh (7.232 per cent) and Andhra Pradesh (7.047 per cent). Since service tax is not levied in Jammu and Kashmir, the share of this State in net proceeds from service tax is nil. The Commission noted that relative to Twelfth Finance Commission, there is an increase in the ratio of devolution to GSDP (as projected by it) for each-State. Accordingly, every State, taken individually, gains in terms of devolution relative to its GSDP.

Grants-in-Aid

Grants-in-aid are an important component of Finance Commission transfers. The size of the grants has varied from 7.7 per cent of total transfers under Seventh Finance Commission to 26.1 per cent of total transfers under Sixth Finance Commission. Grants recommended by Twelfth Finance Commission amounted to 18.9 per cent of total transfers. The Thirteenth Finance Commission has suggested several categories of grants-in-aid amounting in aggregate to Rs 3,18,581 crores which constitutes 18.03 per cent total transfers. The division among different categories would be clear from Table 6.

Table 6

Grants-Aid to States

(₹Crore)

I. Local Bodies		**87,519**
II. Disaster Relief (including for capacity building)		**26,373**
III. Post devolution Non-Plan Revenue Deficit		**51,800**
IV. Performance Incentive		**1,500**
V. Elementary Education		**24,068**
VI. Environment		**15,000**
(a) Protection of Forests	**5,000**	
(b) Renewablle Energy	**5,000**	
(c) Water Sector Management	**5,000**	
VII. Improving Outcomes		**14,446**
(a) Reduction in Infant Mortality Rates	**5,000**	
(b) Improvement in Supply of Justice	**5,000**	
(c) Incentives for Issuing UIDs*	**2,989**	
(d) District innovation Fund	**616**	
(e) Improvement of Statistical Systems at State and District Level	**616**	
(f) Employee and Pension Data base	**225**	
VIII. Maintenance of Roads and Bridges		**19,930**
IX. State-Specific		**27,945**
X. Implementation of Model GST**		**50,000**
Total		**3,18,581**

***UID Unique Identification** ****GST : Goods and Services Tax**

Source : Report of the Thirteenth Finance Commission (2010-15), Table 12.1 p. 204

As far as post-devolution Non-Plan Revenue Deficit (NPRD) grants are concerned, they have ranged from a maximum of 100 per cent of total grants, as recommended by the Fourth Finance Commission and to a minimum of 33.1 per cent of total grants, as recommended by the Fifth Commission. NPRD grants comprised 39.86 per cent of the total Twelfth Finance Commission grants. The Thirteenth Finance Commission has recommended the lowest ever NPRD grants equal to 16.26 per cent of total grants. According to the Commission, "This has been possible due to the sustained efforts of States to adhere to the fiscal reform path laid down by their respective Fiscal Responsibility and Budget Management (FRBM) legislations. To help the States in fulfilling their obligations as enshrined in the Constitution - right of all children, in the age group 6 to 14, to free and compulsory schooling the Commission has provided grants worth t 24,068 crores to them. Two new 'considerations' in the terms of reference of the Commission are the need to improve the quality of public expenditure to obtain better outputs and outcomes and the need to manage ecology, environment and climate change consistent with sustainable development. The Commission has recommended grants worth Rs 14,446 crores for the former and Rs 15,000 crores for the later

Rs 5,000 crores each for (i) protection of forests, (ii) renewable energy and (iii) water sector management.

Disaster Relief

The existing system of financing relief expenditure mainly revolves around the CRFs (Calamity Relief Funds) maintained at the State level and the NCCF (National Calamity Contingency Fund) at the Central level. Both these funds target immediate relief measures and exclude measures for mitigation by post-calamity reconstruction. The CRF is a resource available to the States to meet the expenses of relief operations for a range of specified calamities. The NCCF is a national fund to provide assistance to States for calamities of rare severity, beyond the coping capacities of the States' CRFs. While the total amount of assistance for the CRFs is decided by the Finance Commission on the revealed needs of individual States, the NCCF has a dedicated source of funding through a special duty on selected items. The Central government has released Rs 12208 crore under the CRF in the four year period 2005 09 against the Rs 12,547 crores share recommended Twelfth Finance Commission for the same period. Under NCCF, the Central Government has released Rs 7,677 crores over the period 2005-09 for various calamities.

The Thirteenth Finance Commission has recommended that the NCCF should be merged into the national Disaster Response Fund (NDRF) and the Calamity Relief Fund (CRF) into the Stare Disaster Response Funds (SDRFs) the respective States. Contribution to the SDRFs should be shared between the Centre and States in the ratio of 75:25 for general category Stares and 90:10 for special category States. Balances under the State CRFs and tire NCCF as on March 31. 2010 should be transferred to the respective SDRFs and NDRF.

The total size of the SDRF has been worked out as Rs 33,581 crores, to be shared in the ratio given above, with an additional grant of Rs 525 crores for capacity building.

Local Bodies

The recommended grants for local bodies for the five year period 2010-15 have been placed at Rs 87,519 crores. Of this, the share of 'general basic grant,' is

Rs 56,335 crores, the share of .general performance grant, is Rs 29,526 crores and the share of 'total special areas grant' is Rs 1,357 crores. For allocation of this grant amongst States, the Thirteenth Finance Commission has recommended the criteria and weights as shown in Table 7.

Table 7

Weights Allocated to Criteria for Grants to Local Bodies

Criterion	*Weights Allocated*	
	*PRIs**	*ULTs***
Population	**50**	**50**
Area	**10**	**10**
Distance from highest per capita sectoral income	**10**	**20**
Index of devolution	**15**	**15**
SC/STs proportion in the population	**10**	
FC local body grants utilisation index	**5**	**5**
Total	**100.0**	**100**

***PRIs Panchayati Raj Institutions; ** ULRs : Urban Local Bodies**

***Source : Report of the Thirteenth Finance Commission* (2010-15). Table 10.5, P. 177.**

Revised Roadmap for Fiscal Consolidation

The Thirteenth Finance Commission has made a number of recommendations for fiscal consolidation. Some of these recommendations are as follows:

1. The revenue deficit of the Centre needs to be progressively reduced and eliminated, followed by emergence of a revenue surplus by 2014-15.
2. A target of 68 per cent of GDP for the combined debt of the Centre and States should be achieved by 2014-15. The fiscal consolidation path embodies steady reduction in the augmented debt stock of the Centre to 45 per cent of GDP by 2014-15, and of the States to less than 25 per cent of GDP by 2014-15.
3. The Medium Term Fiscal Plan (MTFP) should be reformed and made a statement of commitment rather than a statement of intent.
4. The FRBM Act needs to specify the nature of shock that would require a relaxation of FRBM targets.
5. In case of macroeconomic shocks instead of relaxing the State's borrowing limits and letting them borrow more, the Centre should borrow and devolve the

resources using the Finance Commission tax devolution formula for inter se distribution between States.

6. An independent review mechanism should be set-up by the Centre to evaluate its fiscal reform process. The independent review mechanism should evolve into a fiscal council with legislative backing over time.

Total Transfer to States

The Thirteenth Finance Commission has recommended the total transfer of resources from the Centre to the States for the period 2010-15 to the fixed at Rs 17,76,676 crores. The share of taxes and duties in this transfer is Rs 14,48,096 crores while the share of grants-in-aid is Rs 3,18,581 crores. The allocation of grants-in-aid under different heads has been presented in Table 6 earlier.

OTHER SOURCES OF TRANSFER

In addition to transfer of resources from the Centre to the States according to the recommendations of the Finance Commission, there are two other sources of transfer (i) assistance for Plan-purposes from the Planning Commission, and (ii) discretionary grants from the Centre to the States. These sources of transfer have contributed substantially more resources than statutory transfers (which are transfers through the Finance Commission) and reflect the considerable power that the Central government enjoy in influencing the decision-making process at the State level. For a number of years during the period of planning, statutory transfers have remained less than one-third of total transfers, while the remaining two-thirds went contributed by the Planning Commission as assistance for Plan purpose or by the Central government under the head 'discretionary grants'. There were no objective criteria to decide the distribution of non-statutory transfers and this introduced an element of arbitrariness in the whole scheme.

16.5 SUMMARY

Everything depended on what the Centre through about the needs of the States. Basically, Plan assistance was meant to enable the States to undertake certain schemes according to Plan priorities. In actual practice, however, the States were presented with a choice of schemes-each with predetermined proportions of loans and grants' assistance.

Though the Planning Commission had no statutory basis (as against the Finance Commission which is an ad hoc quinquennial body statutorily set up to recommend devolution of resources from the Centre to the States), it tended to take up the functions of the Finance Commission and for a considerable period of planning, has remained the more important source of transfer. Since it was not guided by any objective criteria, the whole scheme introduced arbitrariness in the determination of resource transfer.

16.6 QUESTIONS

Q.1 Define the term federal finance.

Q.2 Describe in detail how resources between Centre and State shared in 12th Finance Commission.

Q.3 Explain the main recommendations of 13th Finance Commission of India.

REFERNCE / SUGGESTED READING :

- Misra & Puri : Indian Economy, Himalaya Publishing House Pvt. Ltd., Mumbai

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PARALLEL ECONOMY AND GRAYING OF INDIA'S POLITICAL ECONOMY

Structure

17.1 OBJECTIVE

After going through this lesson, you will be able to :

- Explain the term, causes and remedies of parallel economy.
- Describe the current status of black money of India.

17.2 INTRODUCTION

The built-in dynamics of India's exponentially growing black economy along with its concomitants in the form of corrupt and illegal practices in the public domain by the rich and the powerful, that is their white-collar crimes, in the course of their main, normal activities (including government, business, particularly the large-sized corporatized businesses and even the not-for-profit entities) has been continuously spreading to and vitiating almost every walk of our national life. Simply by tying to capture its growing magnitude and entry into newer arenas, it seems one may not be able to comprehend the essential character of this basic malaise of the Indian economy and polity with close linkages with the other social processes that make them full of perversities.

17.3 CURRENT STATUS OF THE BLACK ECONOMY -GRAYING OF INDIA'S POLITICAL ECONOMY

India's social existence seems to be surrounded by a highly mixed up system of legal-illegal moral-immoral behavior and actions. The abstract/theoretical models of the economy, polity, society and cultural exchanges and relationships (implicitly based on legal and above board behavior as the normal pattern would have to be stretched re-worked a great deal to be able to throw light on these mixed processes and relationships. Without such exercises we are unlikely to have a reasonable degree of assurance about our ability to make much sense of the nature and mode of operation of the unfolding reality.

Also it becomes difficult to comprehend the mode of functioning and the emerging inner dynamics operating in conjunction with the rest of tire system: the contagion and dynamics of the black economy influences the entire social system" particularly its political-economic features and its latterly advanced forms, such as the grey political economy in its emerging forms.

Thus, over the past few decades, the character and modes of functioning of the economy and the other related spheres have been heavily impacted by the extra-legal and informal processes emerging under the influence of what began as back economy but got a whole new range of opportunities/activities and resources for grabbing the deregulated market system. This was greatly facilitated by the massive amounts of undeclared and stashed away funds and social capital among the classes of people, particularly owing to the great intermixing of the main classes of entities and interests and the resulting commonality, togetherness and empathy.

However, the emergence of crony equations do tell a somewhat different story in so far as greed and the decisions in pursuit of it led to replacement of competition among the top guns by the 'purchase' of special dispensation with the state decision-makers for specially privileged and lucrative transactions in matters related to the allocation of natural resources and in the application of economic laws (at times extending to framing of laws) to serve or promote the special and specific interests of the oligarchies prepared to pay a 'price' at the personal/private or at times at the political party level.

Thus the state continues to remain in some restricted senses and spheres in a commanding position, in some areas and matters. Actually the state continued to hold the reins in its own hands directly in some key areas (say, for disinvestment or for giving command over natural resources or as a partner in joint ventures, in matters of defence supplies and procurement for government use).These are the implications of what one means by regulatory forbearance.

But the oneness of interests, perceptions and commonality of personnel gave rise to an anomalous situation in which it remains a conundrum as to who is to control, regulate and whom and for what ends.

A rather critical essential condition for any effective operational scheme of controls apparently is the existence of a distinct regulator group. The other is the objects of regulation without involving conflict of interest in their respective spheres along with a set of Overriding public sphere objectives to which there is a clear and undiluted commitment on the part of the concerned agencies. But things take on a different complexion altogether when there is hardly any worthwhile group of interests and entities to be regulated (objects of regulation) which does not have a meaningful and effective presence among the regulator as well (subjects) and vice versa condition which may be described as one of state capture by the economic and political oligarchies.

In the emerging economy and grey political economy situation it would clearly be futile to think of independent agencies and functionaries with arms' length and transparent relationships as formally shown or pretended on both the side of the decision-making process. The favour-dispensers (the political-administrative or the governance classes) and the favour-seekers (the business and corporate entities) appear to be two distinct entities but in many practical ways, following myriad methods both are in the same business of politics related to major policies and projects and keep swapping their respective places and roles. India, by now, is ruled and dominated by powerful governing classes and business classes, rolled in one. The top of the pyramid consists of people with one leg in politics and the other in business and with a great deal of inter se mobility or simultaneous role.

Many diversionary processes, relationships and routes are emerging particularly liking the national economy with the web of global ones (both open and hidden) in the form of dozens of tax havens and millions of shadow companies) and also newer forms of ways and means by which the corporate giants in an oligopolistic framework define their inter se relationships as also with the governance structures and the foreign companies out to invade the Indian markets. These enormously promising avenues for investment and expansion, particularly for things in which the government policies are transferring new opportunities and resources to the big players with access to the huge resources. This thrust to growth and monetization in a big way faces a situation in which neither conventional market equations nor regulatory ones have a clearly defined role and the prospects for the emergence and play of crony relations are enormous given the multiple legacies of the black economy. Thus the whole game seems to have been transformed into something yet to be identified and characterized, though in the present exercise we have ventured to provide a tentative characterization hopefully able to capture the essence of what we witness around us by calling it the graying of the political economy of India.

The built-in dynamics of steadily growing and changing black economy and its penetration into, leading to perversion of the formal -legally instituted processes and mechanisms on account of huge accumulated volume in diverse forms (assets, income flows, loopholes ridden laws and regulations and newer forms of malpractices), its constant move out of and back into expanding the black circuits, both in the domestic and foreign economies, have made the Indian black economy an integral part of the global financial system with some links with the real economy. The latter in any case is now small in relation to the global financial empires.

Given the manner and extent to which the major classes of entities involved in these big games are added and abated by a variety of international linkages and the state and inter-state systems across the world (as witnessed by deliberately created and safeguarded tax havens in various forms) seem likely to create conditions for moving the black circuit of activities into the main real and informal features of the operational modes of the socio-economic system sharply at variance from or indeed opposite of the formal, statutorily sated/prescribed models.

Of course the emerging incarnations would evolve their own logic and appeal, overruling the formal structures, processes and their code of conduct and so on. A change which is still in a nascent front, is the emergence of some stirrings against the black and grey national and international political economic equations by way of global institutions, mobilizations, monitoring, global conventions and monitoring by certain groups.

The deep-seated malaise is reflected in the recurrence of a variety of operational and moral crises springing from the shenanigans, or more precisely, the rampant white-collar social crimes indulged in by the rich and the influential across the world, both in the polity and the economy, on an ever-growing scale on a fairly on-going basis as their normal occupational practices which make entire society in general their victim basically as either socially exclude or adversely include components.

Black economy defined as revolving around tax evasion and illegal generation of and accumulation of income and wealth no longer remains sufficient as the character of the black economy with its driving forces of corporate capital operating from the Indian and foreign soil and the democratic-electoral polity of India has changed as a result of the close and cozy hand in glove working of the two and has been operating for decades. It is the black and clandestine character of the intermingled and inseparable operations of the two major elements of the power block that the reality remains hidden at the first formal glance in the economic, political administrative processes at various levels and in various forms. Hence e issues pertaining to black economy, Black politics and black moral code will have to be explored in their broad political, social relation financial and external dimensions.

Naturally such enormous changes particularly owing to their exclusionary dehumanizing effect are causing powerful resentment and disaffection above glove. Many small and big mobilizations have been witness and are continuing and it seems reasonable to believe that the perversion of the system, as described in outline form above, may well have a contribute to atleast in India massive urban and middle strata mobilization created an in impression as through the country was on the cusp of some new beginnings with the power outburst of popular anger and protest against the phenomenon of corruption and black economy, especially against the political class (and shockingly and as its fatal flaw sparing the main foundation the big corporate sector entities) and also against the part that has found safe and secure-returns yielding refuge outside the country.

But by the time we enter 2013, the phenomenon is back to square one, notwithstanding two official reports concerning black money issues. The manner in which even a small token measure like GARR and the proposed implementation of the Direct Tax Code have been undone clearly show that the struggle is without any clear thrust, let alone its decisive conclusion. The point is that black economy and corruption- ridden growth and governance processes, in their intermixed grey avatar are among the main culprits against which our present day democratic polity and processes. We have not been able to take even the few initial steps to be able to deal with these massive and enormously strengthened menaces. Under this circumstance how can one visualize a real people-centric development which is fair, transparent, responsive and builds up the foundations of a just, fare and progressive society.

The conversion of politics into a business-like, self aggrandizement motivated process in a highly uneven society (that is personalization of an essentially social, group activity-and process) has brought about asocial and anti-social tendencies to the fore in sphere in the economy sphere and vitiated both politics and economy. This has prepared the ground for the graying of the political economy of India, because despite periodic elections based government the majority of Indians are mainly victims of such vitiation. Thus they are by and large involuntary victims of the grey system. This seems to be happening mainly owing to persistent famine of regular and decent livelihood opportunities and partly owing to co-option of the left-out and the socially excluded (the cast-aways of development as French scholar terms them) by the bigger culprits.

There are scores of politicians at various levels with their illegitimate compound black incomes and wealth. Given the accumulation of such tainted wealth and regular flow of current illegal ‘incomes’, the entry in to business becomes a necessity and a highly feasible proposition with numerous advantages both in business and, of course, in politics.

What is meant is that the dynamic closely intertwined or hand-in-glove joint or shared working of the economic and political spheres have led to the decimation of the legal markets and their increasing replacement by dominance of the grey markets in which it is difficult to distinguish between the legal and white and the black and illegal. The emergence, in these circumstances, of increasingly common and shared interests and joint operations of those commanding the economy and polity departing sharply from the formal norms and laws are inevitable counterpart/compulsions of India's famed competitive elections based democracy. In any case the complicated ownership and control structure intricacies (multi layering) available under the Indian company law, global system of overseas financial centres and overseas business corporations, with the use of facilitating and black wealth rewarding tax treaties and the practices prevalent in the tax havens around the globe give enough space to conceal the real stakeholders from the public view; not to speak of the use of rampant benami routes, buttressed by the relationships of trust between those who have chosen to sail in the same boat.

It is on account of such practices that we have mentioned above that the black economy arid its cancerous spread in to the entire body of society has to be understood as white collar crime as explained above. A lenient and tolerant view of these crimes, as though the policies to rein in them are an unwarranted interference in the freedom of the market forces is the basic world view and approach of the policy regime. Thus the laws which seek to make the rich and the influential responsive to and in some respects even sub-servient to the social imperatives and try to ensure a fair and equitable treatment even to all the market players amount in this perspective to an obstacle to growth in so far as these restrain their self-seeking drive to earn as much as possible without any discipline except what they are willing to accept.

It might be stated that an economy slipping in to the vortex of illegality tends to be one which enacts has laws that are full of loopholes or so complex and couched in such legalese that enough space is available for subjective interpretation. Moreover, the system of recruitment, rewards and punishment fails to generate pressures and compulsions to enhance legality and delivery of results. As a result of the inner dynamics of the illegal markets they have been expanding both in absolute terms as also relative to the formal-legal markets. The persistence of illegality in the routine day-to-day activities (generally in more than one respect) is contingent on the one hand of the accumulation of huge stocks of black wealth and on the other of a weak state neither capable nor interested in effective and no-nonsense enforcement of laws. Hence it is logical and realistic to replace the legal and pure markets as the only relevant analytical category by the emerging dominance of the grey economy and governance and the resulting re-definition of the political, social, intellectual and moral challenges of our time.

Among the factors contributing to the business as usual situation we may mention the absence of identification of the main cutting edge elements of the basic malaise, the forces and processes which sustain and nurture the massive and self-sustaining poisonous mechanisms, For example, a recent official white paper on black money a comprehensive listing has been provided of the black economy related accounting malpractices but it has not been explicitly stated that the corporate entities are the main culprits. It is they who basically initiate, sustain and nurture the perversion of the system. But without taking any precautionary action the corporate sector is again being wooed as the leader of economic growth with the creation of an amicable environment for reviving their 'animal spirits'.

There is a growing external sector extension of India's Grey System in the form of huge accumulation of black wealth and social capital among the Indian and foreign top business and governance structures. It is obvious that the main agencies, institutions and instruments involved in having a counterpart of these shenanigans outside the country are the same ones who are dirtying the domestic economy and governance. But without the intervention of some specific agencies and devising of instruments these illegal transfers and their return journey back home cannot happen.

Thus, we have a whole lot of tax havens (big and small countries and city state) which specialize in attracting sheltering with anonymity and difficult to pierce veil of secrecy, enabling the illegal funds earn a preferential fiscal treatment in the countries of origin and all this with a small transactions and tax costs.

The mechanism of having shell companies whose beneficiary ownership and control are kept secret by multi-layering and enable parking of the slush funds, whether obtained at home or abroad on the basis of the accumulated stocks of illegal wealth and by the MNCs of the home country, leveraging these funds to earn tax and regulation-free high return with the help of the top level financial expertise and the (mis)use of the information technology for these purposes are in brief major headaches for the regimes genuinely committed to stem and stop these global scale illegalities and their destabilizing and perverse effects on the national and international levels. It is well known that such illegal deals in the banking, bonds, share and currency markets, defence and aircraft deals and their mind-boggling size are matters which have provoked global concern followed by some concerted action.

A particular difficulty is the size of the black economy, portrayed as a proportion of the GDP (the sum total of the value added, in different legally operating branches of the economy). What seems to be implicit in this view is that as though a part of the total economy is legal and legitimate while another component is black and illegal. Thus it seems the total economy consists of the black and the white and hence the black economy is popularly presented as a proportion of the GDP.

It is thus forgotten that the illegal, white-collar anti-social crimes based economy is too difficult to be captured by the kind of macro-economic concepts, such as GDP produced in legal activities and statistical devices and procedures and their analogous theoretical/conceptual counterparts and is in any case far removed from the legal spheres value-added.

The fact that what is operating is mostly a grey sphere intermixed with the elements which are part legal and part illegal and part open and part hidden and misreported or not even reported in any account books and other declarations made by the business and high net worth entities to any agency make any estimate of the non-open and undeclared parts highly unreliable.

It is really unfortunate that the corruption and black economy forces, despite an unprecedented erosion of their legitimacy, could in some new favors. Thus the ruling establishment is now gunning for bribing the masses by making public cash delivered to them as a largesse form the top (a game changer according to their own proclamations) to be able to continue their far greater and camouflaged practices of thriving on systemic corruption by playing the game of the real fountain heads of the crony corrupt and exclusionary capitalism, marketed as building up a liberalized, globalized and modernized economy. The ostensible tactic adopted is to glorify the processes of economic growth by continuing to project this Trojan horse of development as the basic mantra for realizing our dreams of a developed economy. Recognizing all the above mentioned arguments some measures seem to stand out as feasible and a meaningful beginning.

First priority may be the issue and use of ADHAR cards and their use for weeding out bogus PAN to cover all the tax payers (every direct and indirect tax), whether individuals, HUFs, business entities, association of persons and NGOs, Political Parties and of course all business entities, companies and others. Centralized dovetailing of the transactions and returns of these Adhar-linked PAN holders and an agency to identify the suspect deals and their thorough and time bond investigation is required. The returns would more than justify the costs and efforts, particularly in clearing the system over the next few years. The corporate entities all the stake-holders and related concerns, share holders, managers, promoters and employees both at home and abroad along with their related kin and kith must be identified and their financial and economic status must remain under surveillance. Coercive and voluntary efforts in a judicious mixture and with a deft use of the carrot and the stick has to be adopted at various jurisdictions. Designing new financial products is an area of innovations that is greatly needed for an operation cleanup of our economy and government structure.

Fairly, detailed and credible detailed information is available about the modus operandi of the grey public system and its main players and the existing loopholes-ridden and permissive laws which are supposed to ensure a straight and honest functioning but with counter-productive outcomes Far-going regulation of undemocratic political parties and electoral reforms and the revamping of the company law are urgent necessities.

Similarly, media control by social groups and trade unions and political parties must be encouraged while corporate control of media, selling space and driven by advertisement revenue must be curbed.

17.4 SUMMARY

The need is to start on many fronts simultaneously and with the involvement of the people in democratic ways, The disinformation by a particular band of establishment scholars and the black money dominated media have to be fought and shown in their actual colourss.

17.5 QUESTIONS

Q.1 Explain the term parallel economy.

Q.2 Discuss the causes and remedies of parallel economy.

Q.3 Describe in detail the current status of black money of India.

Q.4 In what sense parallel economy effect the economy of India and specially the common masses?

GROWTH AND MACROECONOMIC IMBALANCES IN INDIA AND ECONOMIC REFORMS

Structure

18.1 OBJECTIVE

After going through this lesson, you will be able to :

- Explain the linkages between growth and fiscal and external balances.
- Explain the trends in Fiscal and External Deficits in India.
- Critical Appraisal of Economi Reforms

18.2 INTRODUCTION

The recent growth performance of the Indian economy has given rise to a lot of hope and excitement. After three decades of sluggish growth of about 3.5 per cent per annum in the post-independence period, the Indian economy attained an impressive growth of 5.6 per cent in the next two decades. Furthermore, during the mid-nineties, the economy grew by more than 7 per cent per annum. This has given rise to a vision of attaining even higher growth rates and joining the club of Asian Tigers'.

18.3 LINKAGES BETWEEN GROWTH AND FISCAL AND EXTERNAL BALANCES

There is a large body of literature on trade-off in macroeconomics. The well-known Phillips Curve shows a trade-off between growth and inflation. The monetarists, while denying the long run Phillips Curve, accept the possibility of short run trade-off between growth and inflation, even under the assumption of rational expectations. In developing countries, Phillips Curve type relationship may not be significant, except probably in the organised manufacturing sector. Instead, in the developing countries trade-off may occur due to structural imbalances in the growth process, particularly when the economy tries to accelerate the overall economic growth.

There are various reasons for which trade-off may occur between growth and fiscal and external balances in a developing economy. First, take the trade-off between growth and fiscal deficit. After the advent of the Keynesian theory, it is now well known that economic growth in general and that of the industry and services in particular are sometimes constrained by the lack of aggregate demand. In such a situation, the government often stimulates aggregate demand by an expansionary fiscal policy resulting in higher growth with higher fiscal deficit. The trade-off may be contained partially by the automatic stabilization through taxation. But in most developing countries with inelastic tax base, the taxes fail to keep pace with public expenditure resulting in higher" growth with greater fiscal deficit. The tradeoff may also occur through the supply side. In developing economies, the investment is the single most important factor determining growth. Since private investment is induced by growth of income and other endogenous factors such as the rear interest rate, the governments in the developing countries generally try to boost growth through public investment financed by borrowings. In the process growth may accelerate at the cost of fiscal deficit.

Table 14.1

Tenth Plan Targets

Variables	*Target Rates*
GDP Growth Rate (%)	8.00
Gross Investment Rate (% of GDP)	32.60
ICOR	4.08
Gross Domestic Saving (% of GDP)	
Public Sector	4.60
Private Corporate Sector	5.80
Household Sector	19.40
Total	29.80
Current Account Deficit (% of GDP)	2.80
Consolidated Fiscal Deficit (% of GDP)	3.30
Consolidated Revenue Deficit (% of GDP)	0.80

This has occupied in India during the 1980s, resulting in higher growth and fiscal deficit (Table 19.1). There are numerous other cases where such a trade-off can occur. For example, a higher subsidy on fertilizer can lead to higher agricultural and aggregate growth but at the expense of higher public expenditure and fiscal deficit. Similarly, a rise in salaries and wages of government employees would increase GDP from public administration and aggregate GDP along with higher public expenditure and fiscal deficit. This has happened in India during the 1990s (Table 19.1).

Table 14.2

Average Growth of GDP and Fiscal Variables in India

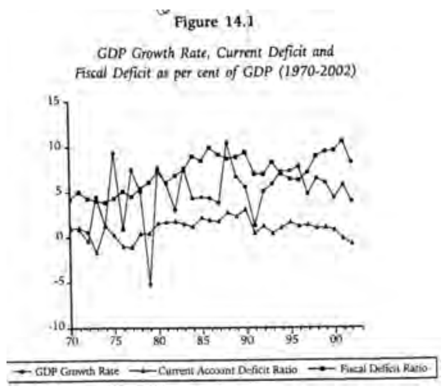
	Seventies (1970-79)	*Eighties (1980-89)*	*Nineties (1990-99)*
GDP Growth Rate (%)	3.39	5.40	6.19
Agricultural Growth Rate (%)	1.74	2.95	3.23
Industrial Growth Rate (%)	4.55	6.67	6.41
Services Growth Rate (%)	4.62	6.77	8.28
Growth Rate (%) of GDP from Public Administration	4.92	7.37	6.23
Fiscal Deficit/GDP Ratio (%)	4.69	8.18	7.71
Public Investment/GDP Ratio (%)	8.19	9.99	7.85
Public Expenditure/GDP Ratio (%)	25.04	31.89	29.72
Salaries & Wages of Public Sector/ GDP Ratio (%)	5.43	6.19	6.77

We may now consider the trade-off between growth and the external deficit as measured by the current account balance. In many developing countries import propensities are usually higher than export propensities and hence, when growth accelerates the trade deficit widens. The import propensity may be higher than the export propensity due to several reasons. First, domestic cost of production may be higher than the import cost. Secondly, as domestic income rises, the propensity to consume imported luxury goods may also rise. Thirdly, growth itself necessitates imports of capital goods like machinery and intermediate products that cannot be produced domestically at competitive costs till the economy reaches a certain stage of development in technology and international competitiveness. Under the fixed exchange rate regime there is no mechanism to automatic correction of the import-export gap. In a market determined exchange rate regime, an excess of imports over exports tends to depreciate the exchange rate, which in turn promotes exports and reduces imports. However, due to structural rigidities and also because of other factors influencing the foreign trade and the exchange rate, the trade gap may not be filled up-completely. Thus even in a market determined exchange rate regime, the current account deficit may widen with higher GDP growth.

Apart from trade balance, the current account balance is affected by the factor services. Growth induces foreign capital. If investment financed by foreign capital leads to production of outputs that are consumed more in the domestic market than abroad, then servicing of foreign capital in terms of interest payments and dividends would adversely affect the current account balance. The resultant outcome would be higher growth with worse current account balance. Much would depend on the nature of goods and services produced by foreign funded investments. If such goods and services were exported then the trade-off would be limited.

18.4 TRENDS IN FISCAL AND EXTERNAL DEFICITS IN INDIA

The long run trends in GDP growth rate and the consolidated fiscal deficit of the Centre and States and the current account deficit as per cent of GDP are shown in Figure 14.1, and their decadal averages are shown in Tables 14.1 and 14.2. It may be noted that as such there are no direct relationships between growth rate and fiscal and current account deficit rates. However, a closer examination would reveal that when the twin deficits reached their peaks during the late-l980s, the growth rate of GDP slumped in the next couple of years. After the reform both fiscal deficit and current account deficit rates declined initially till about the mid-1990s. But while the current account balance continued to improve thereafter and became even positive during the early-2000s, the fiscal deficit situation worsened from the late-1990s. In fact the fiscal deficit rate now is as high as it was during the pre-crisis years. The GDP growth rate has also slowed down, albeit marginally, during the last few years. But there is no clear evidence that it is due to the rise in fiscal deficit, because during the same period the domestic saving-investment rate has also declined.



Let us now look at the components of fiscal deficits and their trends over the same period. The pattern of government income and expenditure has changed significantly during the last three decades. Both government revenues and total expenditures (as percentage to GDP) exhibited increasing trends till the mid-eighties, after which they kept falling for the next ten years or so, and have again shown an upward trend after the mid-nineties (Figure 14.2). Another notable aspect is that till the mid-eighties, the revenue income and expenditure approximately moved together and this resulted in very low (and sometimes negative) values of the revenue deficit. After the mid-eighties, however, the expenditure has been significantly higher than the income, leading to high and increasing revenue deficits during this period. The revenue deficit and its determinants are presented in Figure 14.3. Another aspect of the fiscal scenario that has

Figure 14.2

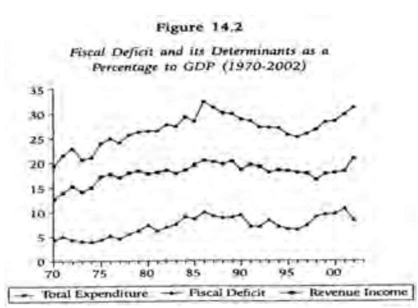


Figure 14.3

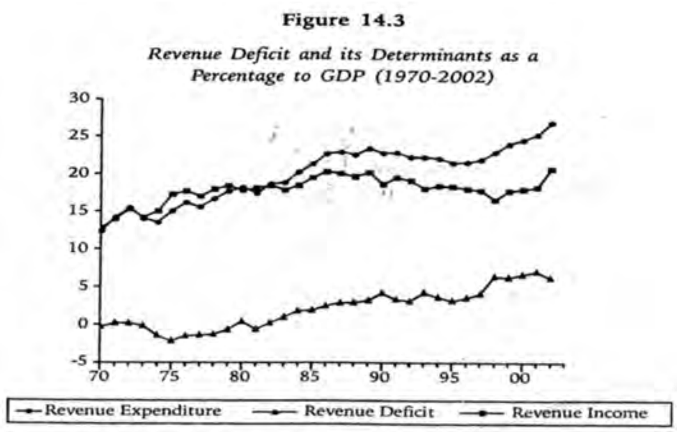
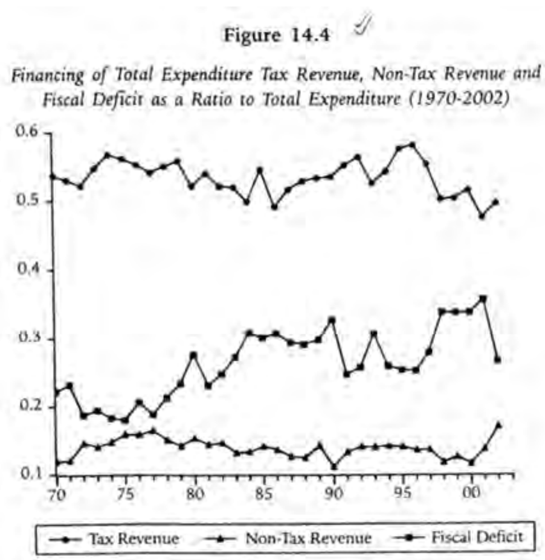


Figure 14.4



Exhibited changing patterns are the mode of financing the total expenditure. At an aggregate level the total expenditure can be finance by either current revenue (tax and non-tax) or through borrowings. The share of total expenditure that is financed by tax revenue, non-tax revenue and the fiscal deficit is depicted in figure 14.4. This figure clearly depicts that from the mid-seventies, there is a downward trend in the tax financed proportional of total expenditure and a corresponding upward trend in the proportional of total expenditure that is covered by the fiscal deficit. This amounted to a debt financed growth strategy during the eighties and resulted in high levels of debt-to GDP ratios. In the initial year after the economic reform, expenditure growth was curbed while the tax revenue became comparatively more buoyant. During this phase the fiscal deficit rate declined. However, after the implementation of the Fifth Pay Commission in 1997, and also the rise in subsidy, the growth of government expenditure began to exceed that of tax and non-tax current revenues. The ratter as a ratio to GDP actually fell in the late-1990s and the early-2000s mainly due to a cut in both direct and indirect tax rates. This led to a sharp rise in fiscal deficit rate. The deterioration would have been much worse but for the sharp fall in capital expenditure since the mid-1990s (Figure 14.5).

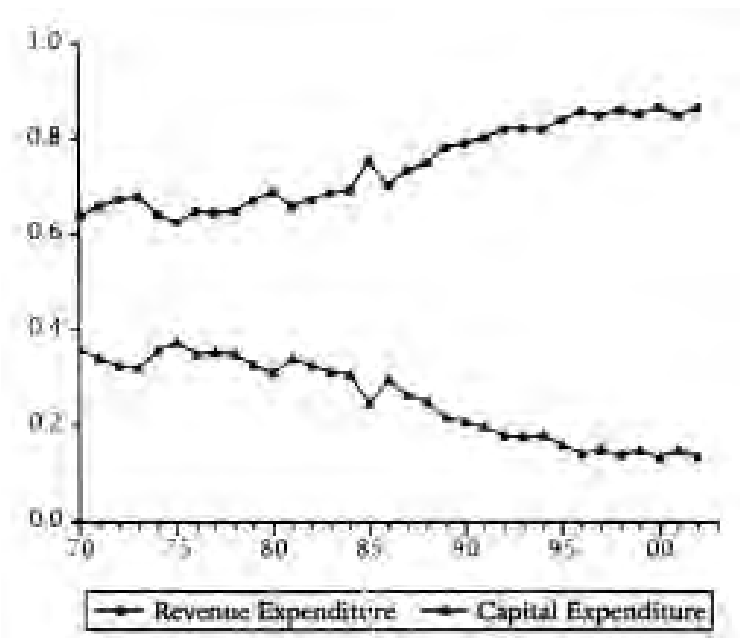


Figure 14.5 : Structural Composition of Total Expenditure Revenue and Capital Expenditure as a Ratio to Expenditure (1970-2002)

The external balance also changed in the last three decades. Both exports and imports, as ratios to GDP have grown secularly during these three decades: the former has grown from 3.3 per cent in 1970 to 10 per cent in 2000, and the latter has risen from 3.6 per cent to 11.3 per cent over the same period (Figure 14.6). The exports GDP ratio exhibited an increasing trend till 1976 and then fell for the next nine years. It started rising again from 1985 onwards, stagnating a little during the

Asian crisis in 1997 and 1998 and recovered sharply thereafter. The imports - GDP ratio also increased very sharply throughout the seventies, particularly after the successive oil shocks in 1974, 7979 and 1990-91. After 19g0, both exports and imports –GDP ratios depicted quite similar trends: a downward trend till the mid-eighties and an upward trend thereafter. After trade and exchange rate deregulation, both maintained a rising trends, except during the Asian Crisis.

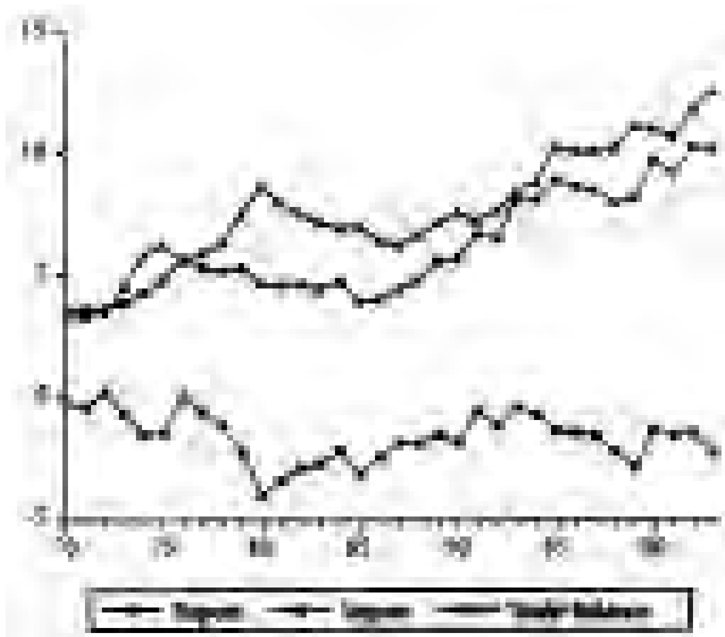


Figure 14.6 : Trade Balance and its Determinants as a Percentage to GDP (1970-2002)

Merchandise trade and invisibles determine the current Account Balance (CAB). In most of the years, the net invisible was positive, and rose sharply in the nineties, thereby restraining the current account deficit. Two factors have contributed significantly in this respect: the remittances from abroad and receipts from software services. But for these two factors the current account deficit would have been probably unsustainable even after the economic reform.

18.5 CRITICAL APPRAISAL OF ECONOMIC REFORMS

Since July 1991 the government has undertaken both macroeconomic stabilization programme and structural reforms as two components of the economic reform package.

As far as macroeconomic stabilization programme are concerned their predominance has been mixed. For example, as at end-May 2002, the inflation rate was below 2 per cent and it reached a high level of 12.6 per cent as on August 9 2008. However, it fell subsequently and was only 0.18 per cent on April 4, 2009. During the year 2010-11, overall inflation rate was as high as 9.6 per cent highest recorded in the last ten years. It was 8.9 per cent in 2011-12 and 7.4 per cent in 201 2- 1 3. As far as fiscal imbalances are concerned, the fiscal deficit of the Central government which was 5.6 per cent of GDP in 1991-92 declined to 2.5 per cent of GDP in 2007-08. However, it rose to 6.0 per cent of GDP in 2008-09 and further to 6.5 per cent of GDP in 2009-10. It was 5.7 per cent of GDP in 2011-12 and 5.2 per cent of GDP in 2012-13. The most important success has been registered in the external sector as foreign exchange reserves touched the level of $ 304.8 billion at end March 2011 (though they tell to $ 295.6 billion as at end December 2012). While the import cover of foreign exchange reserves was just 2.5 months in 1990-91, it rose to 14.4 months in 2007-08 and stood at 11.1 months in 2009-10 (however it tell to 9.6 months in 2010-11 and 7.1 months in 2011-12).

In the real sectors also, the structural reforms have shown mixed results. Since 1991-92 during the 21 years period upto 2011-12, national income increased at the rate of 6.6 per cent per annum. In the first two years of structural reforms, there was near stagnation in the industrial sector However, industrial production picked up in 1993-94 and the average rate of growth of industrial production during the Eighth plan turned out to be 7.4 per cent per annum (same as the target). Industrial production slowed down in the latter half of 1990s with the result that the average rate of growth during the Ninth plan was only 5.0 per cent which was considerably less than the Ninth Plan target of 8.2 per cent per annum. However, industrial production picked up strongly in the Tenth plan and was as high as 11.6 per cent in 2006-07, the last year of the plan. The average rate of growth of industrial production during the Tenth Plan was 8.2 per cent per annum. Industrial growth rate was as high as 15.5 per cent in 2007-08 –the first year of the Eleventh Plan. However, it slipped to just 2.5 per cent in 2008-09 because of economic slowdown following global recession. It picked upto 5.3 per cent in 2009-10 and further to 8.2 per cent in 2010-11 before declining to just 2.9 per cent in 2011-12. The average rate of growth of industrial production in the Eleventh Plan was 6.9 per cent per annum.

Since 1990-91 there was a steep fall in both savings and investment rates for three years. However, both savings and investment rates showed an upturn in 1994-95. During 1995-96 to 2001-02 the saving rate was 24.0 per cent while the investment rate was 24.9 per cent. Thus, both savings and investment rates remained stuck at modest levels. However, since 2003-04, both saving and investment rates have picked up strongly. ln 2007-08, saving rate was 36.8 per cent of GDP and investment rate was 38.1 per cent of GDP (highest in the entire period of planning). Saving rate in 2011-12 was 30.8 per cent and investment rate 35.0 per cent. Some economists have argued that these increases are spurious as in recent year efforts and omissions were large. If these are accounted for, the saving and investment rates decline substantially. Moreover, as pointed out recently by R. Nagaraj, one of the main reasons for sharp increase in saving and investment rates in recent years has been that the saving and investment rates of private corporate sector have shown a sharp increase. However, the estimation procedures adopted for this sector are faulty. According to a study conducted by Rajakumar, the actual level of gross fixed capital formation in the private corporate sector is roughly one-half of the official estimates.

These modest gains from structural reforms notwithstanding, the economic reforms have been subjected to various criticisms. The EPW Research Foundation has pointed out that "the new economic policy is seriously flawed in conception... in its contents, strategy and approach and in many other respects. The shortcomings can be broadly classified underfive major categories: (i) absence of a broader development strategy; (ii) wrong sequencing of reforms; (iii) hasty pace of reforms: (iv) prerequisites of reforms ignored; and (v) absence of human development goals as an integral part of the strategy. These limitations are interrelated and together expose the inherent flaws in the stabilization and structural reforms measures undertaken so far.

1. ***Absence of a broader development strategy:***

   The focus of both macroeconomic stabilization and liberalization is to create a competitive environment in industry in which entrepreneurial decision-making will depend entirely on the market forces. The government's new industrial policy, therefore, lacks a well-defined strategy. The south- east Asian countries which recorded high rates of industrial growth during the decades of 1960s, 1970s und 1980s, in contrast did so on the basis of some structured blueprints and by a process of significant State Intervention. The interventionist strategy of the government in this country can be criticized only for lack of dynamism. On the basis of our experience in the past it is patently wrong to conclude that a well articulated industrial strategy and heavy State intervention have no positive role to play in accelerating industrial growth.

2. ***Wrong sequencing of reforms:***

   As a result of wrong sequencing of reforms, serious distortions have surfaced in economic management. There are at least three examples of wrong sequencing of reforms. First, while for drastic reduction in fiscal deficit, revenue deficit and even budget deficit the prerequisites ate decisive reduction of non-development expenditure and widening the tax base, the government has initiated fiscal correction programme with surrendering of revenue through substantial reductions in tax rates and compression of capital expenditure. Second, a more obvious case of inappropriate sequencing relates to compression of government's capital expenditure and contraction of public investment before ensuring that the private sector and the foreign investors will fill the gap. The third case of flawed sequencing is of liberalizing imports of capital goods before adopting a strategy for technology advancement of the domestic capital goods sector. The latter was necessary for adopting outward oriented strategy of economic -growth.

3. ***Hasty pace of reforms:***

   The rapid pace of reforms has been determined by the controversial goal to globalize the Indian economy quickly. This has led to rapid deterioration in the quality of industrial structure. EPW Research Foundation points out, "A sharp reduction in industrial growth, reduction in the growth of capital goods' industries, a relative shift of exports away from manufactures, and arresting of the growth of industrial employment, have been some of the glaring effects of rapid reforms without providing for some breathing time and appropriate checks and balances for the Indian industry.

4. ***Prerequisites of reforms ignored:***

   The literature on stabilization and structural reforms is full of evidence that the shocks of these policies are better absorbed and their consequences for the well-being of the masses are very much reduced if the society has already reached a certain minimal level of human development. South Korea, Malaysia and Thailand have been the successful cases in the recent past but in all these countries not only the socio- economic structure was far more egalitarian due to land reforms and such other measures but the human development indices like life expectancy and literacy rates were at higher levels, while infant mortality was at a lower level before they embarked -on significant structural reform programme. In contrast, the Indian situation is not at all encouraging from the point of view of human development and socio-economic structures.

5. ***Absence of human development goals as an integral part of the strategy:***

   The stabilization and structural reform programme in India is being implemented against a background of incomplete structural transformation, widespread poverty, low level of human development and distorted pattern of expenditure on health and education oriented towards the relatively well off sections of the society. Given these dismal conditions, structural reforms must be undertaken with a human face. This requires that human development goals should be an integral part of the strategy of structural adjustment. Unfortunately in India no such attempt has been made.

Different people look at economic reforms from their own perspectives. First, there is the upper class, very happy with the reforms. They have all the white goods domestically produced as well as the imported ones. Then we have the middle class which sees in this an opportunity for its advancement to move to the upper class. Finally, there is the lower class which asks, “What is there in this for us?” The poor people want jobs and lower prices of commodities they wish to consume. “The beneficiaries of the reforms so far have been clearly the industrial and commercial classes who were able to take advantage of the opening up of the economy, the liberalization, and the productive and more so speculative activities they have given rise to.”

Atul Kohli has presented a detailed analysis to prove that economic growth in the post-reform India was more result of pro-business policies rather than pro-market policies. lf India's recent economic growth was really a result of pro-market policies. Then, in principle, there ought to be very few costs, only widespread benefits: after all decentralized markets support democracy; competition creates a level-playing field: efficient use of factors of production ought to create labour-intensive industrialization and thus rapid employment growth: terms of trade ought to shift towards the countryside, benefiting the rural poor: and since capital moves to capital-scarce areas in search of high returns, regional inequalities ought to decrease over time. However, India's experience has just been the opposite growth acceleration has been accompanied by growing inequalities, growing capital intensity of the economy. Growing concentration of ownership of private industry, and nearly stagnant growth in employment in the manufacturing industries. This evidence is more consistent with the very that the development model being pursued by India is a "pro-business model that rests on a fairly narrow ruling alliance of the political land and economic elite. According to Kohli, the problems posed by India's current pro-business model of development include disquieting implication the quality of India's democracy. Thus, Why should the common people in a democracy accept a narrow ruling alliance at the helm? Is ethnic and nationalistic mobilization a substitute for pro-poor politics? And, Is India increasingly stuck with a two-track democracy, in which common people are only needed at the time of elections and then it is best that they all go home, forget politics, and let the 'rational' elite quietly run a pro-business show.

Kamal Nayan Kabra underlines that liberalization policies of the post-reform period seek to accelerate growth ignoring disequalisation which is an inevitable effect of economy reforms being pursued in this country (See Box 61.2).

The Eleventh Plan document released in 2008 admits the fact that the growth process in the post-economic reforms period has not been inclusive. The Deputy Chairman of the Planning Commission, Montek Singh Ahluwalia, notes in the preface to the plan. "The Eleventh plan began in very favourable circumstances with the economy having grown at the rate of 7.7 per cent per year in the Tenth Plan."

However, far too many of our people lack the basic requirements for a decent living in terms of nutrition standards, access to education and basic health, and also to other public services-such as water supply and sewerage. Disadvantaged groups, especially the Scheduled Castes and Tribes and the minorities have benefited less than they should have. Regional imbalances have emerged across and. even within States". On account of this reason the Plan talks of accelerating the pace of growth while, at the same time, making it more inclusive.

18.6 THE CHALLENGES AHEAD

Rahul Mukherjee has pointed out the following challenges that lie ahead in the path of economic reforms:

1. Economic growth during on era of reforms needs to be converted into human development. Nutrition, health, education, and sanitation for the vast majority of Indians would require efficient public service delivery for the poor who are not within the purview of the market. Since the logic of competition has limitations in this area, scholars and policy makers need to comprehend the sources of social power that impede the maturing of the welfare State in India." Poverty reduction is seriously affected by the social bases of the power of the ruling party in an Indian State. The poorest districts in India like Kalahandi, Koraput and Bolangir suffer neither from lack of agricultural productivity no Central-level funds. Yet, these districts, with a high concentration of tribal population, are among the most malnourished in India.
2. Another pressing challenge for India's political economy is the decline of Indian agriculture and rural employment. As correctly pointed out by Mukherjee, the political economy of agrarian distress might-well turn out to be a political economy of subsidies to rich farmers at the expense of the poor. It is highly unlikely that the rich farmers will agree to forego free power, water, and subsidized fertilizers, in order to enable the State to focus on amenities to improve the lot of the poorest families. Accordingly, massive additional investments would be required to take care of poverty in rural areas.
3. A globalizing State needs welfare to a greater extent than a closed economy because the globalization and specialization can produce growth and social disruption. All developed countries which view trade as an important factor in development policy have a reasonable provision for social security. "As India's promising economic growth becomes more dependent on the global economy, the State will need to produce not only competitive firms but will also need to secure its citizens from the ravages of uncertainty. Ensuring growth with

redistribution in India would require the transformation of State-society relation towards a more inclusive growth paradigm.

18.7 SUMMARY

The following inferences may be drawn. First, acceleration in aggregate GDP growth can lead to worsening of fiscal deficit depending on how it is financed. Up to a limit, a rise in government expenditure can stimulate both aggregate demand and supply, but the demand effect-would pre-dominate over the supply effect resulting in a trade-off between growth and fiscal deficit. However as a ratio to GDP fiscal deficit may fall due to faster rise the GDP at current price, which incorporates the price effect. But once the capacity is fully utilised mere rise in government expenditure cannot increase aggregate supply. It appears that the GDP growth rate under the present conditions can be increased to about 7 per cent per annum if public investment rate can be pushed upwards to the pre-reform level. However this would require vigorous efforts to mobilize funds for investment by curtailing other expenditures and raising tax and non-tax revenues. Any further acceleration in GDP growth would require improvement in productivity of capital.

The current account balance however, is inversely related to GDP growth: a rise in GDP growth stimulates import demand, and given world demand for Indian exports, tends to worsen trade and current balances. However, the current account remains sustainable under normal growth scenario. If however the international oil prices shoot up dramatically, as it did in some crisis years, and the world trade gets destabilized as a result of both economic and political turmoil, then the current account may become unsustainable, even though growth rate may accelerate. This result would still remain valid even in there were a big influx of capital flows, as witnessed in the second half of 2003. Recent experience elsewhere has shown that a big influx in capital flows can be sustained only if it is accompanied by reasonable current account balance.

18.8 QUESTIONS

Q.1 Describe the need of economic reforms in India.

Q.2 How GDP growth of the country affects the Fiscal and External balance of the country ?

Q.3 Comment critically on the progress of economic reforms in India.

Q.4 What were the main instruments of economic reforms in India?

REFERNCE / SUGGESTED READING :

- Misra & Puri : Indian Economy, Himalaya Publishing House Pvt. Ltd., Mumbai

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WTO AND INDIA

Structure

19.1 OBJECTIVE

After going through this lesson, you will be able to :

- Explain the impact of WTO on various aspects of Indian Economy.
- Explain the India's role at Doha Meeting.
- Describe Geneva Framework and Update on trade Negotiations.

19.2 INTRODUCTION

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

19.3 THE URUGUAY ROUND OF NEGOTITATIONS—8TH ROUND OF GATT

The 8th round of multi-lateral trade negotiation popularly known as Uruguay Round (since it was launched at Punta del Este in Uruguay) was started in September 1986 at a special session of GATT contracting parties held at Ministerial level. World trade had undergone structural change during the four decades since the establishment of GATT in 1948. The share of agriculture in world merchandise trade which was 46 per cent in 1950 had declined to 13 per cent in 1987. Simultaneously, the structure of employment and the contribution of various sectors to GDP of developed countries had undergone a qualitative change. The share of the service sector in the GDP of developed countries was rapidly increasing. It ranged between 50 to 70 per cent of the GDP by 1986. The share employment in the service sector was also increasing. For instance, in USA, service represented two-third of GDP and employed over 70 percent of the work force. In 1980, US export of service amounted to $ 35 billion. In the commodity sector the comparative cost advantage had moved in favour of Japan and several other newly industrialised nations. These factors impelled developed countries, under the leadership of USA to take the initiatives of bringing service sector into trade negotiations. Thus, the Uruguay Round (UR) contained the mandate to have negotiation in 15 areas. In Part I, negotiation to trade in Goods were to be conducted in 14 areas and in part II negotiations on Trade in services were to be carried out.

Part I (Trade in Goods) declaration in UR contained the following:

(1) Tariffs, (2) Non-tariff measures, (3) Tropical product (4) Natural resource-based products, (5) Textiles and clothing (6) Agriculture, (7) GATT articles, (8) safeguard (9) MTN Multilateral Trade Negotiation) agreement and arrangements,(10) Subsidies and countervailing measures. (11) Dispute settlement, (12) trade related Aspects of

intellectual Property Rights (TRIP,s) (13) Trade Related investment Measures (TRIMs) (14) Functioning of the GATT system (FOGS).

Thus, besides the traditional GATT subjects such tariff and non tariff barriers and improvement in GATT rules and disciplines measures etc., certain new areas such as trade Related Aspects of Intellectual Property rights (TRIPs), Trade Related Investment Measures (TIRMs) and Trade in Services were included for the first me for negotiations.

These negotiations were expected to be concluded a four years, but on account of differences in participating countries on certain critical areas, such as agriculture, textiles, TRIPs and anti-dumping measures, agreement would not be reached. To break this deadlock, Mr. Arthur Dunkel Director General of GATT compiled a very detail document, popularly known Dunkel Proposals and presented it before the member-countries as a Final Act on December 15, 1993 and India signed the agreement along with 117 nations on April 15, 1994,

19.4 URUGUAY ROUND FINAL ACT AND ITS IMPLICATIONS FOR INDIA

A big offensive was launched by the Left parties, the Janta Dal and the Bharatiya Janata party against the acceptance of Dunkel Proposals. The basic thrust of the attack was that the Government has surrendered its sovereignty under pressure from the US Government and the multinationals. There is no doubt that some of the critisms were politically motivated and value-loaded, would be correct to say that to some extent, they were misleading. On the other hand, there is no doubt that the claim of the Government of India, that as a consequence of UR agreement, Indian exports would rise at the rate of $ 2 billion per year is exaggerated.

It would be appropriate to study the implications of GATT agreement in various areas:

(A) Reduction in basic duty and export subsidies

On tariffs, India has promised to reduce the basic duty by 30 %. This duty reduction was to be effected over a period of 6 years and was to cover raw materials, intermediates and capital goods. This, however, did not include agricultural products, petroleum products, fertilize and some non-ferrous metals like zinc and copper. These tariff reductions were also a part of the package of economic reforms undertaken in

India and had had been recommend by the Chelliah Committee.

The GATT agreement stipulates that anti-dumping proceedings will be terminated if the volume of dumped imports from a particular country is less than 1% of the domestic market. The only exception is instances where dumping countries collectively account for more than 2.5 per cent of the domestic market. Anti-dumping proceedings will be terminated if the margin of dumping is less than 2%. These clauses do help India to protect its exports from anti-dumping investigations. It would have been much better for India, had the figure of dumped imports m a share of domestic market been more them 1%.

Regarding the prohibition of export subsidies, GATT agreement stipulates that countries like India with per capita income less than $ 1,000 are exempt from the removal of such subsidies for products where their share in world trade is less than 3.25 per cent.

TABLE: 20.1

TABLE I: Indian Exports in 2001 Covered by GATT agreement

US $ million

	World	*India*	*India's Share (%)*
Rice	7,530	631	8.4
Tea and Mate	2,978	415	13.9
Spices	2,440	252	10.3
Iron Ore	8,758	321	3.7
Leather manufactures	24,082	779	3.2
Gems and Jewellery	56,135	6,242	11.1
Total	5,555,028	36,258	0.66

SOURCE: Compiled from *Economic Survey (2003-04)*

Using this criterion, India's share exceeds in rice, tea, iron ore, leather manufactures, gems and jewellery. (Refer table I). All these item taken together account for only 22.8

per cent of India's exports. This implies that 77 per cent of exports are not covered by GATT Agreement. Thus, reduction of export subsidies or their removal is not likely to produce my disastrous effect on our exports, as alleged by many critics.

(A) Effect of TRIPS on the Indian Economy

Some critics are of the view that Trade-Related intellectual Property Rights (TRIPs) as embodied in the GATT agreement will have disastrous effects on our economy, more especially in two vital areas i.e., pharmaceuticals and agriculture. Both these areas affect the well-being of the people. TRIPs requires an understanding about the scope of the new patent regime. Under TRIPS parents shall be available for any invention whether product or process in all fields of industrial technologies.

Patent protection will be extended to micro-organisms, non-biological and micro-biological processes and plant varieties. This implies that the entire industrial and agricultural sectors and to an extent biotechnology sector will be covered under the parent provisions.

A very dangerous provision has been introduced in patent protection and this relates to changing the philosophy of the patent regime whereby products, imported or locally produced, will be covered under patent protection without any discrimination. This implies that the patent regime not only tries to establish manufacturing monopoly but it also intends to establish import monopoly. In this situation, the patent-holder would resort to imports only and the national government would not be able to exercise any price control on the imported products. This provision will help the patent-holder to defy all price control measures.

(B) Patent Regime and Pharmaceuticals and drugs

Patent regime, the critics are of the view, will affect the drug prices seriously. Currently, these prices are very lowing India-thanks to the Indian Patent Act, 1970. Since the enforcement of this Act, Indian pharmaceutical and drug industry progressed rapidly and was able to provide life saving drugs very cheaply. Besides this, it was able to earn foreign exchange to the tune of Rs 2,386 crores in 1996-97.

Under the new patent regime, according to Mr. B.K. Keayla, Convener, National Working Group on Patent Laws, about 70% of the drugs will be covered under the new patent laws. Consequently under TRIPs heavy payments will have to be made to patent holders and consequently. it is feared that this would result in the prices of drugs going up 5 to 10 times. At present, only 30 per cent of the population can afford modem drugs and if the GATT agreement is accepted, another 20 percent of the populations will lose health cover, leaving only 10 per cent populations access to modern drugs. Such a policy has dangerous implications for the health of our population.

However, the critics do not agree to the defence given by the government or certain economists. Multinationals so have the capacity to create scarcities or withdraw the existing drugs and get them register under new product patents. The government has, therefore, to continue with the Drug Price Control Order so far as essential drugs are concerned. It has also to regulate the prices of other drugs, failing which medical treatment in many ailments will be beyond the reach of the poor and middle classes. Already, the situation has been changing in this direction with the growing trend of privatization in health.

(C) Patent or patent-like Protection in agriculture

Dunkel Final Act has made important changes concerning patenting or granting patent-like protection in agriculture. The principal feature of the TRIPs text demands that protection be extended to micro-organisms, non-biological and micro-biological processes and plant varieties. Article 27 of TRIPs Text states that India may provide for protection of plant varieties either by patent or by an effective sui generis is system or by a combination thereof. This system shall be enforced at the end of the transitional period of 10 years. The government of India has been under constant attack that the sui generis (Plant Breeder Rights) system is against the interests of the famers and would act as an impediment to the development of new plant varieties.

(D) Patent (Amendments) Bill and seeds Acts (2004)

The Government introduced the Parent (Third Amendment) and Seeds Act (2004). In the name of quality of seeds, the Government has stipulated that seed growers should get their seeds patented. In case, this is not done, the famers will not be allowed to exchange their seeds with other famers. Compulsory registration of seed combined with the power to seed inspectors to enter and search premises (which implies in the case of Indian farmers fames' fields and huts) is the hallmark of this legislation.

It would be worthwhile to examine the implications of this policy for Indian farmers. Firstly, for hundreds of years, farmers have sown seeds, harvested crops and exchange seeds with famers in the neighboring areas. These indigenous varieties are the basis of our ecological and food security. For instance, coastal farmers evolved salt resistant varieties. Bihar and west Bengal farmers have evolved food resistant varieties. Drought resistant varieties were developed by farmer Rajasthan. Similarly, farmers in the Himalayas has developed frost resistance varieties. Indian farmers not highly educated do not understand the compliment involved in getting their seeds registered. The Multi-national agents can buy these seeds and get them prior to our farmers. They will then be in a position to file cases against these farmers for bartering these seeds their neighbours.

Secondly, it may be noted that prior to this Act as a result of globalization,80 per cent of the seeds were farmer's own varieties which have been saved, produced exchanged freely. The balance of 20 per cent was applied by the public sector seed companies. Under pressure from World Bank, the Seed Policy of 1988 started dismantle the robust public sector in favour of private sector companies and multinationals. This is made clear in the objectives of the Seed Act 2004 which is aimed at farmers' saved seeds with seeds from private sector seed industries.

Thirdly, the Seed Act introduced Inspector Raj and gives the inspectors the power to enter and search premise, even to break open any container and any door. This tantamount to the creation of a 'Seed Police'. The fine air seed exchange and barter of unregistered seed is up to Rs 25,000.

Fourthly, method of agriculture were excluded from patentability in the Indian patent Act, 1970 to ensure that seed, the first link in the food chain, was held as a common property resource in the public domain.

(E) TRIPS, Haldi and Neem

India's ancient use of Haldi (Turmeric) was sought to be patented under the American Law in 1995. Luckily for Indian Dr. R. A. Mashelkar, Director General of Council of Scientific and Industrial Research challenged it. The US patent office acknowledged its mistake and cancelled the patent on 'Haldi'. An American company has been granted a patent right for Neem as a pesticide. Basmati rice, which was a universal variety in

India, has been patented as Kasmati and Temati. Danger lurks with regard to Tulsi (Basil) plant. These are a few cases of biopiracy of India's herbal wealth and to prevent huge losses, India will have to undertake huge documentation about the use of its herbal wealth.

(F) TRIMS and its Impacts on India

Already under the New Economic Policy and the Structural Adjustment Programme initiated since 1991, Government of India has been over bending to woo foreign direct investment and consequently, several change in Foreign Exchange Regulations Act and Industrial Policy have been undertake The difference under the GATT treaty is that these changes will become a pan of the multilateral trade treaty and WTO will in future be able to impose discipline. In that sense, TRIMs treaty abrogates our freedom to become selective in the areas of foreign investment. This militates against our goal of self-reliance. It would have been better if such a proviso had been inserted in the TRIMs clause. This clearly shows that once a decision is taken to allow foreign investment in a certain areas, the country losses much of its freedom to restrict its harmful effects on our local industry and economy. In that sense, unrestricted freedom to foreign allow foreign investment in a certain area, the critics feel, is a compromise on our economic sovereignty.

(G) Textiles and Clothings

GATT agreement has made certain proposal to liberalize the made of textiles and clothings. These proposal are very important for developing counties since textiles exports countries the single most important item of their export. Ironically, developed counties who claim to be the greatest champions of free trade have imposed most comprehensive quota restrictions under the multi-fiber agreement (MFA). The Act proposes to phase out MFA quotas over a ten year period (1993 to 2003) and to fully liberalize the textile sector at the end of the ten year period.

The Act has divided the 10 year period into three phases of three, four and three years. In the first phase 16 per cent of the textile exports to the developed countries will be liberalize to be followed by 17 per cent in the second phase and another 18 per cent in the third phase. Thus at the end of the 10-year period, only 51 per cent of textile market will be liberalized. Thus, a portion (49 per cent) shall have to wait for the second wave of liberalization after 2003 AD. What is intriguing textiles are defined in such a way that textile sector include items that are not currently under quota restrictions in developed countries. Thus, instead of creating real liberalization and withdrawing non-tariff restrictions, the myth of liberalization has been created. The Ministry of Commerce has made this point clear: "It is a fact that the textile agreement is not evenly balanced in the sense in the initial years, there is minimal liberalization and significant steps for liberalization are left only to the last three years. This is one of the points of dissatisfaction for India and we are strongly urging the importing countries to bring forward the liberalization process."

Social Clause In GATT

A very startling proposal was made in the context of the finalization of the GATT agreement towards the end of March 1994. This proposal, commonly referred to as "social clause" was moved by US to be incorporated in the Marrakesh Declaration. The US representative proposed under the social clause to levy a countervailing duty on imports from developing countries aimed at offsetting the low labour costs prevailing there. In plain language, the proposal implied the following: If a shirt in India cost Rs 50, while it cost Rs 200 in the US, then this differential was largely a consequence of the difference in labour costs. To remove this differential advantage, Indian exports to the USA would have to pay a duty aimed at neutralizing the cost advantage. The social clause, it was stated, is motivated by humanitarian concern, so that the developing counties adopt proper standard of living for the workers and pay their labour better wages.

Expert in developing countries were shocked by this proposal since it aimed at blunting the only competitive edge of the third World countries. Experts described the humanitarian argument no more than a moth-eaten fig leaf. The only purpose of getting suddenly concerned about the plight of labour in the Third World was their deep desire a deprive developing countries of their only competitive advantage. They know that as far as technology is concerned, developing countries are at a historical disadvantage. Developing countries have now to pay high price for getting technology from the developed countries. If this clause is introduced, Indian products will become unsaleable in the USA and the other countries of the European community. Ironically, it would imply that the poorer nations will be forced to pay for the fact that they are poor.

Critics are of the this move is a continuation of the Harkin Bill which calls upon the US Department of Labour to annually identify goods made with the use of child labour and the countries exporting them. If this Bill is passed, US Government will ban the import of these items, severely affecting India's export of carpets, gems and jewellery, textiles and garments etc. The social clause is, therefore, aimed at countries like India so that the advantage to the developing world is destroyed and their capacity to export manufactured goods is seriously crippled. In the end, these countries should be allowed to export raw material like cotton and iron ore and import garments and steel. It would really revive the days of colonialism. Mr. Pranab Mukherjee, former Minister of Commerce, stoutly opposing the linkage between social policy concerns, like labour standards, and trade clearly stated at Marakkesh on April 13, 1994: "I would like to state categorically that while we are strongly committed to internationally recognized labour standards, we see no merit whatsoever in the attempt to force linkages where they do not exist. Trade policy cannot be made the arbiter of all concerns."

The social clause proposal became the rallying point of G-15 states and the Malaysian prime Minister Mahathir Mohammed launched a diatribe against the provision. The unanimous opinion of the G-15 countries was that the social clause proposal would hit their economies adversely and thus aggravate the problem of balance of payments, rather than help them to bridge the BOP gap. Due to the combined strength of G-15 countries, the US government had to face a retreat and the issue was deferred.

The Fifth Conference of the Labour Ministers of Non-aligned and other developing counties held in Delhi from January 19-23, 1995 dismissed the "social clause" as 'totally unacceptable". It asserted: The proposed linkage would negate the benefits of trade liberalization and aggravate problems of unemployment and distress. Delhi Declaration came down heavily on the coercive aspect of proposed linkage and stated: Any form of coercion on the labour standards issue is violative of the constitution of international Labour Organization (ILO), The declaration further emphasized that "the application of unilateral coercive economic measures by the developed counties aimed at the Third World countries with a view to obtaining economic or political advantage is unacceptable.

There is another proposal to introduce an environmental protection clause with the intention of forcing the developing countries to pay for the alleged destruction of environment. Experts are of the view that amore discriminatory provision than this is hard to imagine since three-fourth of the damage to world ecological environment has been caused by the developed world over the last two centuries. It is really ironical the developed countries have the cheek to ask the developing countries in the face of these facts to pay for the sins of the developed world.

There is no end to the innovative machinations which the developed countries initiate to force the developed countries into submission to their proposals. The temporary withdrawal of the social clause should not be seen as a victory of the developing countries, it is quite possible that USA may revive it. The question that need to be posed as a counterpoint is: Should developing countries, on the basis of human considerations, impose countervailing duties on US goods till such time that the Blacks in America are assured equality of treatment? Are not labour standards with reference to Blacks important, if the linking of social concerns to trade policy, is pushed to its logical conclusions. Thus, there is a need for vigilance and combined resistance by Third World countries so that the enlarged scope of GATT is not used to their disadvantage.

Conclusion

There is no doubt that in a world of unequal partners, multilateralism is superior to bilateralism and if some concessions are to be extracted from strong partners belonging to US and European Community, then the combined strength of the developing countries can exercise a stronger pull in their favour. One redeeming feature of the GATT is that there is the principle of one country, one vote. However, the developed countries are able to pressurizes the developing countries by various new devices, more especially through intellectual property rights and TRMS. Although the Government of India is claiming that very substantial benefits are likely to accrue as a consequence of GATT agreement, but it is premature to reach any definite conclusion. The Final Act is such a big document that it has wheels-within-wheels and the thrust of the Act is to toe the line of developed nations. Mr. R.K. Khurana of the India International Centre has rightly summed up the position: “The consensus, however, is that the Uruguay Round has been a game in which the more powerful nations lay down the rules. Unfortunately, India is not one among the powerful trading nations and it is, therefore, doubtful if the country could have achieved anything significantly more than what our negotiations have managed."

The history of GATT reveals that whenever newly industrialized nations have challenged the competitive strength of the developed Countries, they have immediately retaliated by imposing both tariff and non-tariff barriers. They have now enlarged these in the form of TRIPs and TRIMs. The innovation of the social clause was also conceived with the same intention of blunting the competitive advantage of developing nations. This game will continue. The solution lies in the fact that the developing nations should take advantage of the multi-lateral trade organizations and show their combined strength by closing their ranks, rather than surrender their sovereignty one after another. To say that there is no alternative defeatist solution. Now that China has also been admitted to WTO, both China and India should work together to assert a fair and just treaty among the trading partner of WTO. rather than pushing down the throat of the weak the will of the strong partner(s).

19.5 IMPACT OF WTO ON VARIOUS ASPECTS OF INDIAN ECONOMY

India, being a founder member of the WTO, has been allowing the WTO decisions, but as a consequence, certain effect on the Indian economy have become evident.

(a) Effects on Indian industry

WTO has been urging India to lower import duties, remove control on consumer goods imports, reduce quantitative restrictions, etc. Under the Uruguay Round agreement, India offered to reduce tariffs on capital goods, components, intermediate goods and industrial raw material our tariffs were above that percentage; to 25% in case our tariffs were between 25 to 40 per cent and combined the traffic ceiling at 25 percent in case our tariffs were below that percentage. This reduction in tariffs was to be achieved the year ending 2000.

Since India scrupulously followed the agreement, is traffic have been reduced year after yea to conform provisions. As the protection afforded by import duties gradually disappeared Indian industry had to face increasing competition from foreign goods. Confederation of Indian Industry (CII), the apex body expressed its disapproval against duty-free status of capital goods Sector. As a result, CII estimated that indigenous capital goods industry on a conservative estimate lost orders worth Rs. 5,000 crores from foreign country. Instead of ensuring level playing field indigenous industry has to pay excise, sales tax, octroi, turnover tax while imported goods are allowed duty-free access to our market. Not only the entire manufacturing industry is faced with a crisis, even machine tools industry, gensets and boiler producer are put at a serious disadvantage. Consequently, imports of finished products are displacing indigenously produced products. As a result, many industrial units are being closed and cheap imports have important cause of recession in Indian industry.

Impact of Import of Second Hand Cars In India : the government of India allowed the import of second hand cars into India. This policy has seriously hit Indian automobile industry. Mr. Rahul Bajaj described this as “anti-national and anti-India Act”.

Similarly, if India allowed the import of used machine tools, it ii likely to have serious repercussions on capital equipment manufactures.

Import of Chinese good: In recent years, Chinese goods are flooding the Indian markets. They include battery cells, cigarette lighters, locks, car stereos, energy saving lamps, VCD player, mist watches, toys, fans, electric ovens and a large variety of consumer articles. Since China has become a member of the WTO, this is going to create another problem because action against Chinese dumping of goods can be taken only within WTO provisions. Not only that, Chinese goods are coming through normal channels of trade, they are also being smuggled via Nepal at zero duty. A very porous border from Nepal has increased clandestine imports from China.Both regular and clandestine imports from China are making serious forays into the Indian markets, thus hurting quite a large range of consumer goods industries.

(b) Impact of WTO on SSI Units

WTO agreements do not discriminate on the basis of size of industries or enterprises. In the WTO regime, reservations may have to be withdrawn, preferential purchase and other support measures may not be available and thus SSI have to compete not only with the large units within the country, but also with cheap imported products. SSIs are thus losing their markets to cheap imported products. Consequently, a very large number of SSI units are becoming sector have closed down. Thus, the SSI sector which accounts for 40 per cent of manufacturing output, 50 per cent of employment and over 33 per cent of exports is in jeopardy. Dumping of Chinese goods has seriously affected SSI sector. The real difficultly with the SSI sector is that it does not have adequate resources to prepare the case for anti-dumping duties in view of the prohibitive costs of anti-dumping investigation. The SSIs cannot collect detailed information on individual products required by the anti-dumping directorate to establish a complete case. Consequently, small industries continue to suffer due to such dumping policy.

Not only that, the entry of multinationals in ordinary consumer goods like ice cream, agarbatti manufacture, food processing, mineral water etc. is also adversely affecting the SSI sector since these were the traditional areas of this sector. In soft drinks, the entry of powerful Coca Cola and Pepsi have eliminated practically all small units engaged in the manufacture of aerated water. In the name of consumer interests, MNCS continue to swallow SSls and eliminate them from the market.

(c) Double standards of developed countries

The basic question is: Developed countries demand so many concessions and reduction of traffics from the developing countries, but are they encouraging free flow of trade, capital and technology across states; or are they using globalization to their advantage? It would be of interest to consider certain issues.

Unfair Game in Agreements on Textiles—India is quite competitive in textiles. But developed countries through various protectionist measures deny access to cost efficient textile producers. These measures take the form of anti-dumping duties unilateral change in the rule of origin and unjustifiable foisting of environmental issues. All these measures are taken to protect domestic industry in developed countries and thus, these measures hamper free flow of Indian textile exports.

Developed countries have proposed ten long years to reduce quotas in their domestic textile industries, but they pressurise the developing countries to reduce their tariffs, remove quantitative restrictions, introduce Intellectual Property Rights (IPRs) etc. immediately. Obvious developed countries play an unfair game so far as textiles agreements are concerned.

Child labour: When import from developing countries hurt the interests of United

States, a number of environmental and human rights issues were raised with the objective of imposing a ban on the import of Indian carpets, chemicals, handicrafts, readymade garments on the plea that in their manufacture child labour was involved. The United States banned imports of several products from India on the plea of child labour. But the hypocrisy of the US attitude has been blown up by Mr. B R Sabade when he writes: "Many American Companies have shifted their factories to remote areas in Mexico, Indonesia and other countries. Children are employed in these factories in large numbers and they have to work for more than 12 hours. Recently, a study conducted by Rugar University has revealed that 290,200 child workers are sweating in shopping malls, factories and farms in the United States". With such double standards, the US uses the child labour stick to punish India.

US Antidumping Acts and Copy, Right Act against WTO Principle: Recently, Japan complained against the US Anti-dumping Act as a violation of WTO principles. A series of investigations carried out regarding Japan's steel export to United States revealed that the US Anti-dumping Act was inconsistent with WTO principles. The decision of the WTO favoring Japan was delivered on 29th may 2000. Similarly, European Economic Community complained against the US Copy Right Act since it militated against the WHO principles as provided for under Berne for the protection of literacy and artistic work. The WTO Decision delivered on 15th June 2000 also went against the United States.

19.6 INDIA'S ROLE AT DOHA MINISTERIAL CONFERENCE

The Doha ministerial under the auspices of the WTO in November 2001 had a draft prepared by its Director General Mr. Mike Moore, which intended to raise new issues such as investment, competition policy and transparency in Government procurement. The developed countries headed by USA were keen on discussing these issues, but the developing nations wanted the 142-members to consider issues related with the implementation of the early decisions taken after the Uruguay Round in 1994.

The major cause of complaint of the developing countries was that whereas the developed nations in principle agreed to reduction of tariff and non-tariff barriers which were a hindrance to the free trade, but in practice used a number of non-tariff barriers to obstruct the much- intended lie flow of trade. US had been able to influence a number of small developing nations to agree to the new agenda, but India spearheaded the attack with Mr. Murasoli Maran, Commerce and Industry Minister by asserting: "We want implementation issues addressed. We want further progress on the built-in agenda of the Uruguay Round, especially on trade in services and agriculture. We will not accept any discussion on non-trade issues like labour standards." Mr. Maran said: "WTO is not a global government and it should not seek to appropriate to itself responsibilities that legitimately belong to national Governments and legislatures." Although it was feared at an earlier stage the India may be isolated, but the logical stand taken by India to further the interests of developing nations, a number of countries came to support the strong stand taken by India. As a matter of convention, all WTO decision are taken by the entire membership, typically by concensus. Though a majority vote can be taken, but it hasn't happened so far since the WTO replaced GATT.

As a consequence of the pressure from the developing nations, USA and the European Union related and accepted a number of issues, which had been strong irritants for developing nations.

First of all, it was agreed that developing countries need not source their essential medicines and drugs at high cost from western multinational companies, which hold patents. South Asian, African and Caribbean countries, will benefit from this decision. Since China, India and Brazil possess the capacity and technology to manufacture these drugs, they will be entitled to export these medicines without having to secure compulsory licenses from license holders. Brazil representative very candidly put forward the case of developing countries: "We need a political signal that we can do what the US and Canada have just done in providing low-priced doses of antibiotics to combat anthrax scare." In this way, the fear that the health cover to about 30 per cent of the population available will be eroded significantly as a consequence of the apprehended rise in their prices, will be significantly taken care of.

Secondly, the poor countries will be able to better look after their food security concerns. This would become possible with the start of negotiations on reduction of domestic support and elimination of export subsidies being provided by US and European Union to their farmers. Now that the developed countries are relenting on this issue m a consequence of the strong line taken by India and other developing countries, consequently poorer nations in need of food will be able to get food cheaper and countries intending to export their surplus grains would be able to stand competition from developed countries.

Thirdly, with regards to services and the related removal of restrictions on the natural movement of people, developed countries are going to be tied down for negotiations. The real argument put forth in this regard that flexibility may be left to different members for bilateral pacts. In this way, it is hoped that India would gain by increasing access for banking, insurance and other companies and increasing opportunities for people to work in other countries.

Fourthly, reduction and elimination of tariffs in agriculture goods and other barriers, particularly on product that are important to developing countries, is under major gain for India.

Fifthly, WTO ministerial declaration has stressed need for establishing a system of registration for wines of spirits known by the region where they are made like champagne. Extension of this geographical indication to items like basmati rice will also be looked into. Last, US agreed to review anti-dumping rules, but there is a fear that this may not be achieved unless the developing countries build up strong pressure on the US to do so.

GAINS FOR INDIA

The Commerce and Industry Minister who presented India at the Doha WTO Conference succeeded in sending a strong message that India can no longer be roughshod over by the developed countries, more especially US and the European Union. The biggest gain was that WTO chairman declared that negotiations on various issues-investment, competition, labour and environment would be held only after an "explicit consensus" was reached at the Fifth Ministerial. Such a consensus may not be easy to emerge even in 2003, keeping in view the reservations expressed by the developing nations at the Doha Conference.

Another major gain was that instead of opening discussion on new issues, it was agreed under pressure from India and other developing countries that it would be more advisable to undertake an exercise on a more complete implementation of Uruguay

Round recommendations. This would involve review of bottlenecks and constraints rising out of the roadblocks in the way of fulfillment of their obligations by the developed countries. This would be particularly directed towards the US, Japan and countries of the European Union to open markets to products in which the developing countries enjoyed a comparative advantage.

The anti-dumping laws of the US were another painful thorn in the flesh of countries like India in respect to steel and other allied items of manufacture. This was taken up strong by India and other member countries. The pressure built on US was so strong that the US was forced to promise a toning down of its policies and legislation pertaining to anti-dumping laws. Now that the WTO has appointed a 9-member committee to which the key issue of Trade related Intellectual Property Rights (TRIPS) has been referred to, it is hoped that the WTO will find a structural change in its functioning and decision-making. The agenda, henceforth, will not be set by the US and European Union (EU), but the developing countries would also be able to air their views more freely so that the WTO does not operate to the dictates of US and the European Union, but becomes a more democratic forum, in the real sense of the term. India and Brazil are members of the committee and they would be able to place the view of developing countries with the same strength with which they presented and articulated the arguments in the WTO Conference at Doha.

19.7 GENEVA FRAME WORK AND UPDATE ON TRADE NEGOTIATIONS

India along with the group of G-20 countries took the initiative to voice the strong feeling of the majority of developing countries at Cancun in 2003. Mr. Arun Jaitley

Geneva Framework of WTO and India

India along with the group of G-20 countries took the initiative to voice the strong feeling of the majority of developing countries at cancun in 2003. Mr. Arun Jaitely, the then Commerce and Industry Minister speaking on the 10th September 2003 stated :

"The plight of farmers in developing countries was directly linked to the level and kinds of subsidy extended to farmers in the advanced countries."

"OECD government support sugar producers at the rate of $6.4 billion annually -- a sum nearly equal to all developing countries exports. Subsidies to cotton growers in a developed country totalled $3.7 billion last year, which is thrice the country's foreign aid to Africa. The agricultural subsidies provided by OECD countries are more than six times what they spent on official development assistance for developing countries." It was alleged that the OECD countries provided domestic support of the order of $320 billion to their farmers, thus enabling them an unequal bargaining power against farmers of developing countries. OECD farmers were thus able to push subsidised agricultural exports to the developing countries impacting adversely on the interests of farmers in developing and least developed countries. The Cancun round ended in fiasco because of the stubborn attitude of the representatives of US and EU countries, not to discuss reduction of agricultural subsidies but to push the Singapore issues, viz. investment, competition; government procurement and trade facilitation. Since India, Brazil, China, Indonesia, Egypt, Malaysia, Philippines, Bangladesh including other developing countries voiced their strong opposition to the Cancun (2003) draft, the negotiations ended in total failure.

At the Geneva meeting in July 2004, efforts were mad to discuss the concerns of the developing countries. India was represented by Commerce and Industry Minister Mr. Kamal Nath. The Indian Government has claimed that it has been able to extract substantial gains on the export of industrial goods and services. It has also been able to safeguard the interest of the farmers. The major gains claimed are :

Firstly, out of four contentious issues which the developed countries wanted to be included in the Doha Round, three issues, namely, investment, competition policy and government procurement have been dropped from the agenda. Only trade facilitation will be taken up for consideration.

Secondly, developed countries have agreed to do away with direct and indirect subsidies provided to their exports. They have also promised to bring about substantial reduction of domestic support provided to their farmers. In particular, the Geneva framework required that there would a minimum reduction in such support to 80 per cent of the pre-existing levels in the very first year and throughout the period of implementation.

Thirdly, the developed countries have recognised the need for special and differential treatment for developing countries in terms of quantum of tariff reduction, tariff rate quota expansion, number and treatment of sensitive products and the length of implementation period.

Fourthly, developing countries have the right to identify the number of special products, based on the criteria of food security, livelihood security and rural development needs, which would be eligible for flexible treatment.

Lastly, a special Safeguard Mechanism has been provided in the framework against disruptive imports, the details of which are to be worked out. The developed countries have also accepted the adoption of less-than full reciprocity principle for developing countries.

Commerce Minister Kamal Nath recounting the achievements at Geneva in the new WTO framework listed the following.

1. Zero-to Zero tariff approach will not binding on all sectors. It implies that India can choose the sectors and products whose zero-duty imports will be allowed. This will enable India check a flood of imports in areas where we are not competitive. This will help to safeguard the interests of domestic industries.

2. On the agricultural front, the biggest achievement seems to be the two windows open for developing countries like India to place the products of their choice in Special Products and Sensitive Products windows. Special product windows can be used by developing countries to block flooding imports of particular product. The Commerce Minister believes that these two windows will help India to effectively block US and EU access to our agricultural markets.

3. On the question of promoting cost-effective quality services, the framework give a bigger push to Mode-4 Services. However, the Government concedes that restrictive policy regime-vis-avis services may hinder their growth.

On balance, it may be stated that WTO Framework. Agreement has made a break-through in world trade negotiations. There are significant gains made, but the moot question is : Will be developed countries permit the developing countries to realise these gains in the near future ? The critics are not very sure because as has been argued by former Commerce Minister Arun Jaitely, C.P. Chandrasekhar and Jayati Ghosh of JNU, Devinder Sharma and Rupa Chanda of IIM Bangalore : for, the devil is in the details. Members have only agreed to framework. The actual modalities need to be worked out.

It is argued that India has pinned down developed countries to reduce and eliminate exports subsidies. But no date has been specified. The time table for this will be negotiated in Hong Kong. So, at the present moment, this an give us a national satisfaction.

The subsidies take three forms : (a) Amber Subsidies be intended to encourage more production; (b) Blue Box provide incentives to limit production; and (c) Green Box subsidies are provided in the name of environment and livestock. The total subsidies provided by the developed countries are $320 billion per year or nearly $1 billion per day. The most unfortunate part of the negotiations is that the Blue Box subsidies have been legitimized. The declaration states : "Members recongised the role of the Blue Box for promoting agricultural reforms." Similarly, the declaration accepts that the Green Box subsidies will not in future be subject to any reduction in subsidies. This implies that we have shut the doors so far as reduction in Blue Box and Green Box subsidies in concerned. Arun Jaitely in a sharp comment argues : "We have painted ourselves in corner by legitimizing the existence of Green Box and the Blue Box. We have not hurt ourselves in the Doha round but accepted a principle that will continue to haunt us in future rounds .... We can rejoice that there would be a capping on the expanded Blue Box and an overall reduction. " The developed countries can feel relieved that the Green Box is wholly outside any reduction commitment and jugglery of box shifting would effectively prevent any reduction in the quantum. The colour of subsidies may change but will the quantum be substantially reduced?" (Hindustan Times, August 11, 2004). Critics, therefore, are of the opinion that the developed countries have emerged as the winners in this game of negotiations and have been able to extract a framework which would strengthen the bargaining position of US and EU in the future round of negotiations.

On the question of restricting trade distorting support to 80 per cent, Para 7 of the Framework for establishing Modalities in agriculture states : "As the first instalment of the overall cut, in the first year and throughout the implementation period, the sum of all trade-distorting support will not exceed 80 per cent of the sum the final round total AMS (Aggregate Measurement of Support) plus permitted de minimus plus Blue Box at the level determined in paragraph 15."

Table 6 provides information regarding the total AMS subject to reduction to be of the order of 101.6 billion euro. 80% of this will provide the post-minimal support permissible under the framework and this works out to be 81.2 billion euro. However, the actual total support as per the formulation of para 7 quoted above works out to 78 billion euro. Thus the European Union (EU) has still a leverage to increase subsidies by 3.6 billion euros, instead of reducing them. Obviously, the Framework does not impose any restrictions in practice to reduce subsidies. Change will be required if the developing countries in the course of negotiations are able to force developed countries to agree to more than 20 per cent reduction. But that lies in the womb of the future!

Table : 6 : Total AMS Support and Actual AMS in European Community

		Billion Euro
(i)	Total bound AMS commitment	67.2
(ii)	De Minimus	12.2
(iii)	Blue Box	22.2
(iv)	Total AMS Support Subject to reduction (i)+(ii)+(iii)	101.6
(v)	Post-minimal reduction level-80% of (iv)	81.2
	Actual Total Support	
	(a) Actual total AMS	43.6
	(b) De Minimus	12.2
	(c) Total Blue Box	22.2
	Total	78.0

Regarding Blue Box subsidies, the framework places them at the level of 5 per cent of total production value. In case of the European Community, total production value has been estimated at 243.4 billion euros. Thus, the permissible Blue Box support works out to be 12.2 billion at the rate of 5% of production value. The actual Blue Box support is 22.2 billion euros. The arithmetic, therefor, suggests and immediate reduction of Blue Box subsidies by 10 billion euros. But this reduction has not been guaranteed in the Framework which provided some flexibility where "a member has place and exceptionally large percentage of its trade distorting support in the Blue Box." C.P. Chandersekhar and Jayati Ghosh also agree with Arun Jaitley that the member may restructure the subsidies and shift the Blue Box support to the Green Box and thus avoid any reduction of subsidies.

Another claim made is the safeguard mechanism provided in the framework. The developing countries can brand certain products as "sensitive" and bring some others under the 'special product' category. This mechanism can enable developing countries to safeguard the interests of their agriculture. However, the inclusion in the "Sensitive" or 'Special Product Category' will need the approval of the WTO. This requires evidence to prove that inclusion in Special Category is based on the criteria of food security, livelihood security and rural development needs or is based against disruptive imports. For instance, India produces about 250 crops whereas Europe does not grow more than 25 crops. Devinder Sharma is right when he argues: "For Europe, getting a score of crops protected under 'Sensitive' and 'Special Products' will be justified. But to expect WTO to accord 'Special Product" status to over 200 crops from India would be asking for impossible." (*Business Line*, August 5, 2005)

Another area which is very important for India is the non-agricultural market access (NAMA) which has a high potential to increase our share in exports to US and EU. The broad modalities proposed in the framework have not been accepted by members. In the area of services in which India has strong interest, there is total absence of specificity. This is very disappointing.

Lastly, it has to be noted that two stalwarts among G-20 who spearheaded the interests of the developing countries at Doha and later at Cancun, joined "by invitation" the FIPs groups (Five Interested Parties) which included US and EU representing the developed countries, Australia representing the Cairns groups of agricultural exporters with Indian and Brazil representing the developing countries. All this was intended with the clear objective that if India and Brazil can be softened, then it would become much easier to make inroads into the G-20 group. Chandrasekhar and Jayati Ghosh lament : "These claims of success not withstanding, the creation of FIPs, the inclusion of India along with Brazil, in the grouping and the nature of the framework agreement that FIPs was instrumental in forging, has weakened the developing country camp, which G-20 was expected to strengthen. "(*Business Line*, August 10, 2004) This explains why India and Brazil did not take up the specific cause of African nations related with the elimination of cotton subsidies. It is really amazing that US supports its 25,000 cotton growers to the extent of $3.7 billion. Average subsidy per grower works out to be $1,48,000 which in 2002 is more than 4 times the per capita GDP in United States. The Cancun talks were deadlocked on the issue. The EU has with drawn aid to Kenya, the most vocal of the African countries to the tune $60.2 million on July 21,2004 on the pretext of 'bad governance'. Although the framework pays lip sympathy and " recognised the vital importance of this sector to certain LDC members" but instead of talking specific decision on the issue "promises to work to achieve results expeditiously."

To conclude, it may be pointed out that through developed countries have agreed to reduce subsidies, yet when the issue is probed in detail, it comes out very clearly that the developed countries have bee successful in creating an illusion, without conceding anything substantial. The Framework Agreement leaves several vital issues for further negotiations. By creating FIPs, the developed countries have been able to break the resistance of two most powerful advocates of the interest of developing countries, thereby weakening the G-20 camp. In the light of all these developments, there is no cause for jubilation over the achievement of WTO Framework Agreement at Geneva.

Update on Trade Negotiations

On going WTO Negotiations

India has been one of the first signatories of WTO trade agreement, which concluded in 1994. There were certain issued on which in 1994. There were certain issued on which negotiations had not concluded. For remaining issued Doha Round of trade negotiations have been going on since 2001. These negotiations cover several areas such as agriculture, market access for non-agricultural products, trade related intellectual property rights, rules (covering anti-dumping and subsidies) and trade facilitation. Since 2001 negotiations have been going on at very slow speed. While the years 2007 and 2008 saw intensive discussions in the WTO and progress achieved on several complex subjects, the negotiations were slow the resume following the December 2008 break at the WTO. Major stumbling block for negotiations to make a head way was the rigid stand taken by the developed countries with regard to agricultural subsidies issue. Developed countries were supposed to reduce their agricultural subsidies as per the commitments made by them in WTO. Since issue of agricultural subsidies is very sensitive in their respective countries, developed countries instead of reducing their agricultural subsidies, have rather chosen to increase them manifold. If developing countries like India give market access to the agricultural produce of developed countries, agriculture in developing countries may suffer heavily. Another contentious issued is that of Non-Agricultural Market Access (NAMA), according to which developing countries would have to reduce their bound tariffs with maximum over all average cut of 36 per cent over a larger implementation period of ten years. Therefore there has been a deadlock in WTO Doha Round of negotiations.

Based on discussion during the Mini-Ministerial meeting held in July 2008, the Chairs of the Negotiating Groups on Agriculture and Non Agricultural Market Access (NAMA) brought out fresh drafts of modalities to Agriculture and NAMA on December, 6, 2008.

Again after a standstill, going by the political commitments expressed by WTO members in international fora, India took the initiative and hosted a Ministerial Conference in New Delhi from September 3, 2019 which was first occasion since July 2008 for ministers representing practically all shades of opinion and interests in the WTO to come together. There was unanimous affirmation of the need to expeditiously conclude the Doha Round, particular in the present economic situation, and for developing remaining at the heart of the Doha Round.

The Seventh WTO Ministerial meeting was the first full Ministerial meeting of the WTO in the aftermath of the global economic meltdown was held in Geneva from November, 30-December 3, 2009. While the conference was not intended as a negotiating forum, it provided a platform for different group to assess the direction of the negotiations. India and here coalition partners reiterated their commitment to upholding the development dimension, the centrality of the multilateral process and the need to safeguard livelihood concerns, particularly of the poor, subsistence farmer in their countries.

Bilateral and Regional Cooperation

We understand that WTO continues to be at the center of India's trade negotiations. Given the fact that it is difficult to arrive at a consensus on contentious issues related to trade in goods, services and investment, and regional cooperation would continue to feature for a long time in world trade. India has been active in regional and bilateral trading arrangements in recent years. RTAs, which help in expanding India's export market, are considered as "building blocks" towards the overall objective of trade liberalization and multilateral negotiations.

Some of the recent developments with regard to Bilateral and Regional Trade Agreements (whether concluded or under negotiations) are listed as follows :

1. Indian - ASEAN CECA (FTA) : A Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India was signed by the Prime Minister of India and the Heads of Nations/Governments of ASEAN members during the Second ASEAN-India Summit on October 8, 2003 in Bali, Indonesia. The agreement on Trade in Goods was signed on August 13, 2009. The India-ASEAN Trade in Goods Agreement has come into effect on January 1, 2010. The Agreements provides for elimination of basic customs duty on 80 per cent of the tariff lines accounting for 75 per cent of the trade in gradual manner. Negotiations towards trade in the services and investment are expected to conclude by August 2010.

   The signing of the ASEAN-India Trade in Goods Agreement paves the way for the creation of one of the world's largest free trade areas (FTA) - market of almost 1.8 billion people with a combined GDP of US$ 2.75 trillion. The ASEAN-India FTA will see tariff liberalization of over 90 percent of products traded between the two dynamic regions, including the so-called "special products" Such as palm oil (crude and refined), coffee, black tea and pepper. Tariffs on over 4,000 product lines will be eliminated by 2016, at the earliest.

   Critics of this agreement argue that libralising trade in special products like palm oil, coffee, tea, coconut etc will have serious implications on livelihood of farmers engaged in the implication on livelihood of farmers engaged in the production of these commodities.

2. India-South Korea Comprehensive Economic Partnership Agreement (CEPA) : The Agreement was signed on August 7, 2009. This happens to be India's first FTA within OECD country. Under this agreement tariff will be reduced or eliminated on 93 per cent of Korea's tariff lines and 85 per cent of India' tariff lines.

3. India-Japan CEPA : Agreements in goods, services and investment are under negotiations. So far more than a dozen meetings of Joint Task Force have taken place in this regard.

4. India-EU Trade and Investment Agreement : A board-based bilateral Trade &

Investment Agreement is being negotiated with the EU. Negotiations cover trade in goods, services and investment, sanitary and phyto sanitary measures, technical barriers to trade, rules of origin, trade facilitation and customs cooperation, competition, trade defence mechanism, Government procurement, dispute settlement, Intellectual Property Rights (IPR) and Geographical Indications (GIs).

There are many issues for concern in the EU-India FTA. According to the critics this FTA. According to the critics this FTA is going to have and adverse impact on livelihood of Indian People. According to a study commissioned by the European Commission itself the FTA would increase EU exports to India by $17-18 billion while India's export would increase by around $5 billion only. The impact of reducing as many as 95% of our import duties down to zero or close to zero percent in seven years will result in import surges - especially since FU agriculture imports in particular are heavily subsidized in a wide range of products such as sugar, diary, tomato paste, poultry, to name a few. Because the EU FTA will do nothing to curb EU subsidies - farmers and farm workers will be hard hit by our steep reduction of import duties. Moreover, a rapid reduction of import duties, combined with ease of entry of European agro-processing and retail firms through the services and investment chapter of the FTA will dramatically impact how food is produces and sold in the country. Indian farmers and workers will not be able to bargain against the power of Europe's multinational retail firms.

According to critics this agreement would pave a way for unrestricted export of metallic minerals and other rare natural materials, which would cause great loss for our feature generation. Critics also believe that liberalization in services and investment would have severe implications for India' existing and future small and home grown industries and businesses related to agricultural, manufacturing and services. This agreement would also seriously affect the scope of intellectual property protection and enforcement. If EUs demand for liberalising government procurement is accepted than our small and medium enterprises, poorer section of the society and poorer states would be adversely affected. This would also adversely affect the government's ability to adopt suitable policies to take care of economic upheavals.

19.8 SUMMARY

A survey of the globalization policies followed in India reveals that the promised benefits of globalization in the form of sharp increase in GDP, exports, foreign direct investment, reduction of poverty, deceleration of unemployment could not be realized by India during the 1990s. Globalization has adversely affected Indian industry, it has enabled the developed countries to push their exports to India at a much faster rate, but did not facilitate the process of access to international markets; small scale industry has suffered due to the policy of dumping practiced by developed countries, more especially in consumer goods. The most distressing part of the story is the double standards practiced by the developed countries which manifest in the form of unfair agreement on textiles; a policy marked by a bias in favour of the farmers of developed countries as against the poor farmers in India. Developed countries brought forth spurious environmental and social issues to prevent the exports from India of such commodities in which the country possessed comparative advantage. Mr. V S Vyas rightly points out: "The international agreements, particularly under World Trade Organization have not helped the developing countries as was professed at the time of the establishment of WTO". All these factors have resulted in an erosion of faith in globalization as the new "mantra" for stimulating development in India.

19.9 QUESTIONS

Q.1 Describe the evolution of WTO from GATT.

Q.2 Discuss the India's role at Doha Meeting.

Q.3 Explain the impact of WTO on the various aspects of Indian economy.

REFERNCE / SUGGESTED READING :

- Datt & Sundharam's : Indian Economy, S. Chand & Company Pvt. Ltd., New Delhi, 2015

FOREIGN TRADE POLICY

Structure

20.1 OBJECTIVE

After going through this lesson, you will be able to :

- Explain India's foreign trade policy - The Pre-Reform period.
- Critically explain the new trade policy of India.
- Describe the Foreign Trade Policy (2009-14).

20.2 INTRODUCTION

Solution of the balance of payment problems of a country depends considerably on the policies it adopts in the import sector and export sector. As far as the foreign trade sector is concerned, the year 1991 is a watershed as massive trade liberalization measures adopted since this year mark a major departure from the relatively protectionist trade policies pursued in earlier year. According to Rajesh Mehta, such a break stems from the change in the perception for the trade policy mindset in the country. "While the objectives of self-reliance and self-sufficiency influenced the trade policy formulation in the till 1950s and 1960s, the factors like export-led growth, improving efficiency and competitiveness of Indian industries Prevailed upon the trade policy-making during the late 1970s and the early 1980s. The current trade policy reforms, on the other hand, seem to have been guided mainly by the concerns over globalization of the Indian economy, improving competitiveness of i1s industry and adverse balance of payments situation.

20.3 IMPORT POLICY: THE PRE-REFORM PERIOD

The import policy of the government of India in the pre-reform period had two important constituents: (i) import restrictions and (ii) import substitution.lt was formulated keeping in view the limited foreign exchange reserves of the country, shortages of essential consumer goods in the economy, requirements of capital goods, machinery, spare parts and component for the building up of heavy, basic industries, and the role and scope of import substitution in the country. The period of 1980s was characterized by massive import liberalization –the desire being to enhance the export competitiveness of large sections of Indian industry.

Import Restrictions

The Mahalanobis strategy of development encouraging large-scale industrialization of the country was initiated in the Second Five Year plan (which started in 1956-52). Under this strategy of development, the government had to import capital equipment, machinery, components, spare-parts, industrial raw materials, intermediate goods, technical know-how etc. in large quantities and this led to a substantial increase in foreign exchange expenditure. The government also had to resort to import of foodgrains from time-to-time to overcome the shortage of foodgrains. As against this, the export earnings continued to be stagnant. Thus, the government had no option but to severely curtail import expenditure. Therefore, the history of severe import restrictions in the country starts from the year 1956-57.

For the purpose imports were divided into different categories- namely consumer goods, intermediate goods and capital goods. Each category was subdivided into non-permissible (banned), limited permissible (with mandatory certification and mandatory clearance from the Chief Controller of Imports and Exports [CCI&E], Automatic permissible (without mandatory certificate but with clearance from the CCI&E), and open general license (OGL, without certification and without clearance of the CCI&E) groups. Licenses were categorized further based on user type such as established importer, actual user, newcomer, ad hoc, export promotion scheme (like import replenishment license), and other (like replacement license). Some of the imports were allowed only through state trading agencies like State Trading Corporation (STC), Minerals and Metals Trading corporation (MMTC) etc (these were known as canalized items). As the foreign exchange difficulties continued to mount up more and more items were brought under import restrictions. The policy of import restrictions was rigorously pursued by the government for full two decades right up to 1977-78. Followings the devaluation of the rupee by 36.5 per cent in terms of gold in June 1966, imports were somewhat liberalized. Such liberalization was offered to 59 priority industries consisting of export industries, capital building industries and industries catering to the needs of the common people (like sugar and cotton textile). The year 1966 also saw the initiation of the new agriculture strategy and the government resorted to larges scale import of fertilizers, seeds, pesticides and insecticides etc.. to implement the new strategy.

Import Substitution

The two broad objectives of the programme of import substitution in India were: (a) to save scarce foreign exchange for the import of more important goods, and (b) to achieve self-reliance in the production of as many goods as possible. The policy in India has gone through various phases. Broadly speaking we can discern three distinct phases: (i) in the earlier phase import substitution mostly took the form of domestic Production of consumer goods: (ii) in the second phase, emphasis shifted to the replacement of the import of capital goods and (iii) in the third phase emphasis was on reducing the dependence on imported technology by developing and encouraging the use of indigenous techniques. The policy of import substitution enabled the country to save valuable foreign exchange and in changing the structure of import are now manufactured in the country itself and in the case of many of these the country has been able to achieve a position of self-sufficiency. Not only this, the process of import substitution also contributed directly to the processes of economic (and industrial) growth.

Import Liberalization in 1980s

The import policy of the Government of India till 1977-78 varied in degrees of restrictiveness during different plans. The year 1977-78 initiated a new era of import liberalization in the country. This process was carried forward in 1980s. The annual import policies of 1980-81 to 1984-85 followed the liberal approach of providing necessary imported inputs for the industrial sector. However, the real thrust in the direction of liberalization was provided from 1985 onwards when the system of formulating long-term (three year) polices was adopted. Three long-term export-import policies were announced by the government. The first covered the period 1985 to 1988, the second covered the period 1988 to 1990 and the third covered the period 1990-92. The broad details of the import liberalization measures enunciated in these export-import polices are outlined below

1. Policy for import of capital Goods. Since capital equipment is the basic requirement of the industrial sector, the approach in the three-year export-import policies was on providing easy access to imported capital items by progressively delinking them from licensing formalities. A large number of capital goods were plaid under OGL (Open General Licenses) category, i.e., they could be imported without any import license. To help exporters to compete in the world market, special facilities were provided to them for import of capital goods. Registered Exporters were permitted to import capital equipment against REP (Registered Exporter Policy) licenses. The 1990-92 policy incorporated scheme for import of capital goods at concessional duty by manufacturer-exporters. Facility was also provided for the import of second-hand capital goods.

2. Policy for Import of raw Material : As in the case of capital goods, a large number of raw materials, components and consumables were placed under OGL in order to enable the actual users (industrial) to procure them without going through the licensing formalities. In addition is OGL imports, actual users (industrial) were extended the facility of importing raw materials, components and consumables under supplementary licensees.

3. Import Policy for Registered Exporters : Because of the dire need for increasing the export earnings of the country, import policies in 1980s were given an 'export orientation'. The aim of these policies was to provide the Registered Exporters an assured, continuous and uninterrupted supply of the required production inputs, essential for expanding the exports on a sustaining basis. Duty free import of raw materials against REP licences was introduced. Registered exporters were provided with the facility to import capital goods against REP licenses.

4. Policy for Export Trading Houses : Exporters who fulfilled certain minimum export requirements for a specified period of time were granted the status of Export Houses, Trading Houses, Star Trading Houses or Superstar Trading Houses. The 1988-90 policy had fixed the eligibility limit for recognition as Export Houses and Trading Houses at Rs 2 crore and Rs 10 crore of net foreign exchange earning respectively. This was raised to t 5 crore for Export Houses and I 20 crore for Trading Houses by the 1990-92 policy. The latter policy also introduced a new category of Star Trading Houses. These included those Trading Houses that had net foreign exchange export earnings at Rs 75 crore or above annually in the preceding three year. In view of their special position in the field of exports. Exports Trading Houses were provided with a number of import benefits.

5. Policy for Imports of technology: The government allowed liberal import of technology with a view to making export production of the country internationally competitive and also to help in the country's technological advancement. However, the emphasis was on the absorption and adaptation of imported technology.

20.4 A CRITICAL EVALUATION OF IMPORT POLICY

The policy of import substitution and the policy of import liberalization of the pre-reform period is criticized on following ground.

1. The Import Control Regime

According to Jagdish Bhagawati and Padma Desai import policy had the following adverse economic effects: (1) delays; (2) administrative and other expenses; (3) inflexibility; (4) lack of co-ordination among different agencies; (5) absence of competition; (6) bias towards creation of capacity despite under utilization: (7) anticipatory and automatic protection afforded to industries regardless of costs; (8) discrimination against exports: and (9) loss of revenue.

Delays occurred, according to Bhagwati and Desai, because of the following three basic reasons: (i) because of a scarcity of foreign exchange, the definition of priorities becomes exceptionally difficult and attempts to meet demands on an equitable basis are made. This frequently requires collecting 'more information' to scrutinize applications and take a final decision; (ii) Iarge bureaucratic apparatus results in wastage of time; and (iii) widespread corruption at all levels of the administrative hierarchy frequently creates obstacles in speedy movement of files.

Because of a rigid itemization of permissible imports, an element of inflexibility in the pattern of utilisation of imports was introduced. Not only transferability of licenses among different industries but even transferability of licenses among units within the same industry was not permissible. This gave rise to an expanding black market in import licenses. There was also a lack of coordination among the multiplicity of agencies dispensing imports and this created various bottlenecks and difficulties in procuring desired imports on the part of applicants. The import allocation system was so designed as to eliminate the possibility of all competition, either domestic or foreign. If an item was available in the country, it could not be imported even if domestic costs were much higher than the foreign supply price in the domestic market. Undoubtedly, this gave a boost to import substitution but, at the same time, eliminated all incentives to reduce costs per unit output. Protected market reduced the cost-mindedness' of domestic producers. Not only this, protected market gave the wrong signals to industry as domestic production of banned and restricted goods became more profitable than those of permissible items.

Bhagwati and Desai note that the tendency to relate equity in allocations of import licenses to installed capacity prompted many entrepreneurs to build up capacity far in excess of actual requirements even in those cases where there was already underutilization of existing installed capacity. Protection was automatically granted to all industries regardless of cost, efficiency and comparative advantage in the Indian import policy. According to Bhagwati and Desai this served to divorce market-determined investment decisions from any guidelines that international opportunity costs (with suitable modifications) might have otherwise provided'. The import policy until late 1964 was formulated with a substantially inward looking bias and this proved unfavourable to manufacturing exports. Since the import control system was designed to pass on the profits on scarce imports to the private sector, it resulted in inevitable loss of revenue to the exchequer.

2. The Policy of Import Substitution

In this context Jaleel Anmed states, "Valuable resource could have been saved if the process of import substitution had been more selective with a limited number of strategically chosen sectors and industries, where a concentration of effort and resources could have maximized the gains in efficiency. In the heavy industry sector, in particular, simultaneous development of a plethora of manufacturing activities may have deprived the economy of the advantages of large-scale production and of meeting the minimum critical thresholds." Another important criticism is that since under the policy of import substitution, the import of most luxury consumer goods was restricted by prohibitory tariffs, the profitability of their domestic production automatically increased. This factor, coupled with the political pressure of the affluent to satisfy their demand led to the establishment of a wide range of import-substituting consumer goods industries catering to the demand of the affluent few for sophisticated and highly diversified products, totally out of line with the average per capita income in the country. The demand tended to fall off after a certain point (because of the general poverty of the masses) resulting in unutilized capacity and higher average costs in these luxury goods industries.

In addition to the above, the import substitution strategy is criticized on various other counts as well. G.M Meier argues that the import substitution strategy in these countries “was not targeted according to systematic economic criteria but instead was pursued in a chaotic, inefficient manner and for too long a time. At the micro level too many plants produced too small an output; quality was inferior; capital was underutilized; and the industrial structure became increasingly monopolistic or oligopolistic. Given high effective rates of protection, the domestic value added in some case was actually negative at world prices. ... Further, policy induced price distortions –negative real rates of interest, excessively high wages for unskilled labour and undervalued foreign exchange were pervasive. As the import substitution process continued from the easy first stage of replacing non-durable consumer goods. it entailed production that was increasingly high cost and less economic; the incremental capital output ratio increased; the rate of growth in aggregate output slowed down: and employment lagged as further import substitution became more difficult.

3. Policy of import Liberalization

The policy of import liberalization pursued with a vigour in the 1980s resulted in a substantial increase in the volume of import. For instance, the volume index of imports was 224.1 in 1988-89 (base 1978-79 = 100) i.e., in a period of a decade, it had more than doubled. Also, import liberalization led to a significant increase in the import intensity of exports. While the impact of the policy on import liberalization in increasing the import-intensity is thus fairly well established’ its impact on promoting exports is a bit difficult to judge particularly because there a number of factors affecting the export performance and import liberalization is just one of them. However, Deepak Nayyar notes that while the volume of exports had increased by 58 per cent and unit value of exports by 122 per cent during 1970-71 to 1977-78, export growth during 1977-78 to 1984-85 was marked by a sharp deceleration as the volume of exports grew by only about 30 per cent and the unit value of exports by 68 per cent. Thus, during the earlier period of Liberalization, import liberalization did little for export promotion. On the other hand, as the import content of exports increased, the proportion of net foreign exchange earnings in gross f.o.b value of exports actually declined..

20.5 EXPORT POLICY: THE PRE-REFORM PERIOD

Bimal Jalan classifies the export policy of the Government of India in the pre-reform period into three distinct phases: Phase I (upto the first oil shock of 1973). phase

II (covering the period from 1973 upto a decade or so) and phase lll (the period after the above and covering roughly the latter half of the Sixth Plan and the whole of the Seventh Plan). Phase I was characterized by export pessimism as, following Prebisch, Singer and Nurkse, it was believed that exports from developing countries faced a stagnant world demand and nothing much could be done to increase them. It was also believed that the terms of trade of these countries were destined to deteriorate over time regardless of the policies of developing countries.

The period of Phase I can be divided into two sub-period (a) 1952-66. and (b) 1966-73. The first sub-period covers the first three Five Year Plans and was characterized by an essentially passive export policy though some steps to increase exports were undertaken in the Third plan. Except for a few items such as iron ore, stagnation export earnings in this period is to be largely attributed to domestic policies which often led to the falling share of India’s traditional exports and insufficient expansion in the case of non-traditional exports. Some of these policies as underlined by Bhagwati and Desai were as under:

i. Export controls which were started during the Second World War and carried over for much of the-early part of the decade in the case of important foreign exchange earning commodities like jute, tea, cotton textiles, oilseeds and vegetable oil, raw cotton, hides and skins, etc;

ii. Export duties which affected several export commodities through most of the decade; and

iii. The growing strength of domestic demand accentuated in some cases by government’s promotional activities.

The second sub-period in Phase I starts with the devaluation of rupee by 36.5 per cent in terms of gold in June 1965. The government expressed the hope that the devaluation would lead to expansion in export earnings as Indian goods would now be cheaper in international markets. On the other hand, imports will decline as the prices of imported goods would increase. In addition, many foreign investors would feel encouraged to invest capital in those fields where we required foreign capital earnestly. Devaluation would encourage foreign tourists into India and discourage Indian tourists abroad. These developments would have a favourable effect on India's balance of payments situation.

Export subsidies were introduced for some non-traditional goods in 1966 itself and by 1967 they covered the bulk of engineering goods, chemicals, sports goods, paper products, steel scrap, prime iron and steel, cotton textiles and some other products.

Phase-II can be considered to have begun in 1973 and lasted for about a decade." In this phase, although this was not explicitly stated, it was recognized that import substitution policies by themselves could not bring about a viability in India's balance of payments..... In this second phase exports were, therefore, accorded a high priority. Given the lower rate of inflation at home as compared to the outside world, this also meant a sharp downward movement in the real effective exchange rate (REER) of the rupee. In fact, the REER declined from 107.83 in 1974 to 82.66 in 1979 (1975 = 100). As a result. the relative profitability of exports increased. These policy measures coincided with some favourable external factors. Nayyar particularly highlights three such factors: 'First, there was a remarkable expansion in world trade, which was associated with an increase in world import demand for most of Indians exportable. Second, there was a boom in the prices of primary commodities, which led to a sharp increase in average unit values realized for exports. Third, the oil price increases led to the emergence of new markets in the oil exporting countries which constituted a net addition. Thus, export growth picked up considerably in Phase II.

Phase III saw a more positive approach to export promotion strategy. While incentives for export production were enhanced on the one hand, exports themselves were now being seen as an integral part of industrial and development policies. Export policy in phase III emphasized "technological upgradation, increase in the size of plants, free imports and domestic and international competition for the entire industrial sector as being essential for export promotion." According to Deepak Nayyar, it is also possible to discern the beginning of a new long term perspective about trade policies and industrialization in this phase, which provided a contrast with the approach of the earlier planning era.

Export Promotion policies: An Overall View

Important export promotion measures undertaken by the Government of India during the pre-reform period were as follows:

1. Cash Compensatory Support (CCS). This was introduced in 1966. It was designed to provide compensation introduced indirect taxes paid by exporters on inputs, higher freight rates, and market development costs. The rates varied from product to product, and often from exporter to exporter. The scope of CCS was steadily extended over the years and the proportion of total exports eligible for CCS rose from a level of about 20 per cent in the early 1970s to a little more than 40 per cent in the early 1980s. The CCS involved the largest single budgetary outlay for exports. After the devaluation of the rupee in July 1991 and substantial trade liberalization, it was felt that CCS had become redundant. It was, accordingly, abolished in July 1991.

2. Duty Drawback System. The object of the duty drawback system is. to reimburse exporters for tariff paid on the imported materials and intermediates and central excise duties paid on domestically produced inputs which enter into export production. This is a worldwide practice and the rationale is straight forward. Custom duties and excise duties on inputs raise the cost of production in export industries and thereby affect the competitiveness of exports. Therefore, exporters need to be compensated for the escalation in their costs attributable to such customs and excise duties.

3. Replenishment Licenses. In order to provide the export sector of the economy with access to importable inputs that enter into export production, at international process, the import policy allowed special import facilities for registered exporters. In 1957 the government introduced the import Entitlement Scheme (IES) to help the export in procuring imported raw material other component necessary for export production. Exporters were granted import licenses, fetching high import premia, pro rata to the value of export effected. IES was withdrawn on devaluation of the Indian rupee in 1966 but was soon reintroduced in another garb in a revised from. The new name of the scheme was Import Replenishment Scheme (IRS). The system of import replenishment licenses which were related to the f.o.b. value of exports was in so far as it enabled exporters to import input where the domestic substitutes were not adequate in terms of price quantity

or delivery dates; it was also an incentives in so far as there was a premium on those REP liences which were transferable.

4. Advance licences and Duty Exemption Scheme. Advance licences facilitated imports of specified raw materials without payment of any customs duty. Such licences were available only against confirmed export orders and/or letters of credit.

5. EPZs and 100 per cent EOUs. With a view to giving impetus to export drive, the government set up Export Processing Zones (EPZs) which provide almost free trade environment for export production so as to make Indian export products competitive in the world market. The scheme of 100 per cent Export-Oriented Units (EOUs) was introduced in December 1980 to provide duty free access to imports of raw materials, intermediate goods, capital goods and technology on OGL: Their production is bonded for exports and the units can be established anywhere in the country.

6. Subsidies on Domestic Raw Materials. The most important scheme in this category was the International Price Reimbursement Scheme (IPRS) for steel, which equalized the difference between international and domestic prices of steel obtained from domestic sources.

7. Fiscal Concessions for Exports. Special fiscal treatment granted to exports took two forms that which related to the payment of indirect taxes, and that which related to the payment of direct taxes. The first type of concession was incorporated in the duty drawback and the regime of cash compensatory support which sought to reimburse indirect fares that were not refunded through the former. The second type of concession was incorporated in income tax provisions where earnings from export where either partially exempted from income tax or taxed at a lower rate.

8. Export Credit and Assistance to EPCs. Assistance was granted in the form of grants-in-aid to the Export Promotion Councils and approved organizations, export house consultancy organizations and individual exports to undertake (a) market research, commodity research area survey etc, (b) export publicity and

dissemination of information (c) trade delegations and reams, (d) participation in trade fairs and exhibitions, (s) establishment of offices and branches in countries abroad, (f) research and development schemes etc., and (g) any other scheme that would promote the development of market for Indian good abroad.

9. Blanket Exchange Permit Scheme. A Blanket Exchange Permit Scheme was introduced by the government in June 1987. The scheme aimed to give a major thrust to the country's export promotion drive. Under the scheme, exporters were allowed, barring a few products, to utilize 5-10 per cent of their foreign exchange earnings for undertaking export promotion activities.

20.6 A CRITICAL EVALUATION OF EXPORT POLICY

1. Absence of a Long-term Export Strategy:- As note earlier, phase I (i.e., the period from the beginning of the planning to the first oil shock of 1973) was characterized by export pessimism. In the first two plans, estimates were more in the nature of expected earnings rather than of firm targets and no definite programme of expanding export earnings was adopted. Indeed, the Second Plan took the position that only when industrialization had proceeded some way that increased production of home would get reflected in large-export earnings. Some measures of export subsidization were indeed started in the Third plan yet the overall mode of pessimism persisted. In phase II (covering the period from 1973 upto a decade or so) more attention was paid to the export sector as it was realized that import substitution, in itself would not be able to bring about a viability in India's balance of payments. Accordingly, a number of steps (outlined earlier) were adopted to increase exports. Even then, the criticism remains that we lacked a long-term export strategy. In most of the crucial areas affecting the export sector ad-hocism persisted. In the third phase, there was a new emphasis on exports and many steps were initiated to increase them. However, the 'linkages' of the exports of different industries to the domestic economy were not explored. Accordingly, the task of integrating export planning with the overall planning could not to be accomplished.

2. Problems Confronting Primary Exports:- For a long period of time, primary products contributed a major portion of India's export earnings, However,

prospects of increasing exports of these commodities were limited on account of a number of external and internal factors. The external factors included (i) steady deterioration in the terms of trade for primary products in the international market; (ii) severe fluctuations in international product prices; (iii) growth of synthetic substitutes; (iv) changes in technology which have reduced the amount of material used in manufacturing; (v) pattern of consumption in developed countries which makes for a low propensity to consume such producers; and (vi) tariff and other restrictions imposed by industrial countries on some primary products. International demand for most of the primary products exported by India had remained stagnant while it had to face serious competition from some –other underdeveloped countries interested in increasing the exports of these goods. Therefore, it became continuously more and more difficult for India to maintain its share in world export of these products. For example, India has to face tough competition from Sri Lanka and East Africa in tea and its share in tea exports declined from 50 per cent in 1950-51 to 21 per cent in 1969-70. Competition from Bangladesh (previously East Pakistan) in the field of jute led to a reduction of India's share in world exports of jute manufactures from 95 per cent in 1950-51 to 45 per cent in 1969-70.

These tendencies were observed in all those primary commodities where India was a major supplier and hence had to operate in oligopolistic market condition However, in commodities where India held either a near monopoly or was a marginal supplier, domestic policies also contributed their mite in keeping India export earnings low. The most important factor in this context was probably the rising domestic consumption of exportables either as raw materials for the domestic industry (for example, raw cotton, raw tobacco, raw hides and skins, etc.) or as final goods (like cotton textiles, tea, coffee, vegetable oils, etc). To meet domestic demand of oilseeds and vegetable oil in the economy, the government banned the exports of most oilseeds in 1952 (this has to be seen in the light of the fact that in prewar days, India used to supply 40-50 per cent of world exports of groundnuts and groundnut oil. Because of the serious inflationary pressures operating in the economy, profit margins on domestic sales rose considerably in relation to export sales and this worked as a disincentive to export primary products. In addition to these two factors operating in the domestic economy (increased domestic demand and inflation), export controls introduced by the government from time to time and export duties levied on primary export may also have contributed to a fall in India's share of world exports of primary producers.

3. Problems Confronting Non-traditional Exports:- Government of India had recognized quite early, and rightly so, that possibilities of increasing emphasis on the through expansion or primary exports are several limited. Therefore, it placed an increasing emphasis on the development of non-traditional exports. World trade of most of these commodities was expanding rapidly and it was not difficult to increase India's share. Moreover, India was a marginal exporter of these commodities and export-promotion efforts were not likely to invite seriously counter-moves from major exporting countries. Thus India's domestic policies could play a crucial role in increasing export earnings from non-traditional products (especially manufactured products and engineering goods). Various, export subsidization policies were specifically introduced and oriented with the purpose of increasing the export of manufactured products. Therefore, it is no mere accident that the share of engineering goods exports in total exports rose from 2.1 per cent in 1960-61 to 12 per cent in 1990- 91. Import entitlement schemes and import replenishment schemes, duty drawback scheme, cash assistance, provision of finance for exports, provision of raw material to export-oriented units at international prices, direct tax concession, etc. all helped the country in enlarging its export earnings. However, exports of manufactured products also suffered on account of serious trading and production problems, faulty domestic policies and insufficient efforts.

   i. Trading Problems. Among the 'trading problems' one can mention external impediment which posed a problem of "entry" for the Indian manufactures (and manufactures of other developing countries) in markets of industrialized countries. The most important factor inhibiting exports of manufactured products from less developed countries to developed countries is the system of tariffs adopted by the latter. The characteristic features of this system is that tariff rates become increasingly higher as one moves from raw material to manufactured product. For example, as one moves from iron ore to raw steel and then to machine goods the tariff rates in industrialized countries frequently increase. Such tariff system makes it difficult for less developed countries to compete in the world market for manufactures. This discriminatory tariff system is accompanied by a plethora of quota restrictions and other non-tariff barriers. Another external impediment is that the process of import substitution in other countries encompasses virtually the same range of goods which India is trying to export. The most glaring example in this context is of the cotton textile industry which many less developed countries have developed successfully in the post war period.

ii. Production Problems. The most serious problem in this field is the lack of technological dynamism' in Indian industry. In spite of changes in the industrial and trade policies most Indian firms continue to produce outdated products with inefficient production technologies. Not only this, a very large number of firms continue to use plants which are more than 20 years old. These plants suffer from frequent breakdowns, poor and uneven product quality and high rejection rates. They have also become inefficient users of energy. Furthermore, these plants embody obsolete function technologies which have been replaced by more advanced and efficient technologies in the developed countries.

4. Exchange Rate:- Tendulkar and Bhavani have raised another important point. According to them, exchange rate adjustment is a better option than import controls to manage the balance of payments deficits as it affects all tradable uniformly without discriminating against any sector. Thus, it does not lead to any type of distortion in resource allocation nor does it require any complex administrative mechanism to implement. Yet exchange rate adjustment was never used as an instrument to manage the repeated crises in balance of payments as it was assumed that Indian exports were, unresponsive to prices. The exchange rate remained over-valued most of the time in the pre-reform period. This made imports cheaper and exports unprofitable further contributing to current account imbalances.

20.7 NEW TRADE POLICY: THE REFORM PERIOD

As stated earlier, the period after 1991 has been marked by a substantial liberalization of the trade policy. While some liberalization measures were the result of the conviction among government circles that they were necessary to make exports competitive in the international market, some were undertaken under the pressure of the international agencies, as a part of the stabilization and structural adjustment programme. Moreover, with India joining the WTO (World Trade Organization) in 1995 as a founder member, it is under an obligation to strike down all quantitative restrictions on imports and reduce import tariffs so as to 'open up' the economy to world trade and the forces of globalization. The main measures of the new trade policy as it has evolved over the years since 1991 are as follows:

1. Free Imports and Exports:- In the pre-reform period, Indians trade policy regime was complex and cumbersome. There were different categories of importers, different types of import licenses, alternate ways of importing etc. Substantial simplification and liberalization in all these respects has been carried out in the reform period. The tariff line wise import policy was first announced on March 31, 1996 and at that time itself 6,161 tariff lines were made free. Till march 2000, this total had gone up to 8.066. Quantitative restrictions in respect of 1.419 tariff lines remained till this dare. The Exim Policy 2000-01 removed quantitative restrictions on 714 items and the Exim policy 2001-02 removed quantities restrictions on the balance 715 items. Thus, in line with India's commitment to the WTO, quantitative restrictions on all import items have been withdrawn.

2. Rationalization of Tariff Structure:- In its Final Report published in January 1993, Chelliah Committee had advocated drastic reductions in import dudes. The Committee expressed the opinion that the rupee had depreciated considerably in the 1980s and the early 1990s, pushing up the level of protection to Indian industries considerably. For instance, the Committee pointed out that in the seven year period 1985-86 to 1992-93, the real exchange rate of the rupee had depreciated by 57.45 per cent. This had pushed up the cost of the imports considerably leading to very high levels of protection to the Indian industry. The

Committee therefore, recommended that the prevailing import duties be rationalized and drastically lowered by 1998-99 so that parity in prices of goods produced domestically and internationally can be established. Acting on the recommendations of the Committee, the Government has, over the years reduced the maximum rate of duty. The 1993-94, Budget had reduced it from 110 per cent to 85 per cent. The successing Budgets have reduced it further in stages. The peak import duty on non-agricultural goods is now only 10 per cent.

3. Decanalisation. A large number of exports and imports used to be canalized through the public sector agencies in India. The supplementary trade policy announced on August 13, 1991 reviewed these canalized items and decanalised 16 export items and 20 import items. The 1992- 97 policy decanalised imports of a number of items including newsprint, non-ferrous metals, natural rubber, intermediates and raw materials for fertilizers.

4. Convertibility of Rupee on Current Account. The government made a two-step downward adjustment of 18-19 per cent in the exchange rate of the rupee on July 1 and July 3, 1991. This was followed by the introduction on partial convertibility of rupee in 1992-93, full convertibility on the trade account in 1993-94 and full convertibility on the current account in August 1994. Substantial capital account liberalization measures have also been announced in recent years. The exchange rate of the rupee is now market-determined. Thus, exchange rate policy in India has evolved from the rupee being pegged to a Market related system (since March 1993).The exchange rate is largely determined by the market, i.e., demand and supply conditions. However, Reserve Bank of India intervenes in the market to check excess volatility, prevent the emergence of speculative activities, and maintain an adequate level of exchange reserves. This exchange rate Policy is known as managed floating.

5. Trading Houses, The l99l policy allowed export houses and trading houses to import a wide range of item. The Government also permitted the setting up of trading houses with 51 per cent foreign equity for the-purpose promoting exports. Under the 1992-97 trade policy, export houses and trading houses

were provided the benefit of self-certification under the advance License system which permits duty free imports for exports.

The Third Supplement to Foreign Trade policy, 2004-09, announced in April 2007 divide export houses into five categories: (i) Export House, (ii) Star Export House (iii) Trading House, (iv) Star Trading House and, (v) premium Trading House. The exporters were granted such status on achieving exports of Rs 20 crores, Rs 100 crores, Rs 500 crores Rs 2,500 crores and Rs 10,000 crores respectively. These Export Houses and Trading Houses have been granted a number of benefits and concessions.

6. Special Economic Zones. A scheme for setting up Special Economic Zones (SEZs) in the country to promote exports was announced by the government in the Export and Import Policy on March 31, 2000. To instil confidence in investors and signal the government's commitment to a stable SEZ policy regime, the Special Economic Zones Acts 2005, was passed by Parliament in May 2005. The SEZ Act, 2005, supported by SEZ Rules, came into effect on February 10, 2006. The main objectives of the SEZ Act are generation of additional economic activity, promotion of exports of goods and services, promotion of investment from domestic and foreign sources, creation of employment opportunities and development of infrastructure facilities. For a detailed discussion on the SEZ policy, please refer to the Appendix to this chapter.

7. EOU scheme. The Export-Oriented Units (EOUs) scheme introduced in early 1981, is complementary to the SEZ scheme. It offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, and availability of technological skills, existence of an industrial base and the need for larger area of land for the project. The EOUs have put to their own infrastructure.

8. Agriculture Export Zones. The Exim policy 2001 introduced the concept of Agri Export Zones (AEZ) to give primacy to promotion of agricultural exports and effect a reorganization of our export efforts on the basis of

specific products and specific geographical areas. The scheme is centered around the cluster approach of identifying the potential products, the geographical region in which these products are grown and adopting an end to end approach of integrating the entire process right from the stage of production till it reaches the market. The AEZs would have the state-of-the-art services such as pre-post harvest treatment and operations, plant protection, processing packaging storage and related research, and development. The exporters in these zones can avail of the various export promotion schemes under the Exim policy including recognition as a status holder

9. Market Access Initiative scheme:- Market Access initiative scheme was launched in 2001-02 for undertaking marketing promotion efforts abroad. The key feature of the scheme are in-depth Market studies for select product in chosen countries to generate data for promotion of exporrs from India, assist in promotion of India, Indian products and Indian brands in the international market by display through showrooms and warehouse set up in rental premises by identified exporters, display in indentified leading departmental stores/total exhibitions/trade fairs, etc. The scheme shall also assist quality upgradation of product as per requirements of overseas markets, intensive publicity campaigns, etc.

10. Five Thrust Sectors. The Foreign Trade policy (2004 09) announced specific strategies (termed Special) Focus Initiatives) for five sectors : Agriculture, Handlooms, Gems and Jewellery and Leather and Footwear sector. For instance, in agriculture a new scheme called Vishesh Krishi Upaj Yojana, exports of fruit, vegetables, flowers, minor forest produce, and their value-added products. For handloom and handicrafts sector, the policy announced that a new Handicraft Special, Economic Zone would be established.

11. Served from India to be built as a brand:- Presently, services contribute more than 50 per cent of the country's GDP. To provide a thrust to service

exports FTP (2004-09) advocated a number of steps like: (i) Served from India' brand will be created to catapult India the world over as a major global services hub: (ii) An exclusive Export Promotion Council for services would be set up in order to tap opportunities in key markets, and develop strategic market access programmes: (iii) Individual service Providers who earn foreign exchange of at least Rs 5 lakh, and other service providers who earn foreign exchange of at least Rs 10 lakh would be eligible for a duty credit entitlement of l0 per cent of total foreign exchange earned by them, etc.

12. Setting up of Free Trade: and Warehousing Zones (FTWZs). The FTP (2004-09) introduced a new scheme to establish Free Trade and Warehousing Zones (FTWZs) to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency. This is aimed at making India into a global trading hub. Foreign direct investment would be permitted up to 100 per cent in the development and establishment of the zones and their infrastructural facilities.

13. Reducing transactional costs and simplifying procedures. The FTP (2004-09) announced a number of rational measures to reduce transactional costs and simplify procedures, These included: (i) All exporter with minimum turnover of Rs 5 crores exempted from furnishing bank guarantee (this was aimed to help small exporters who incur high transactional costs); (ii) Import of second-hand goods permitted without any age restrictions; (iii) All goods and services exported, including those from DTA (domestic tariff area) units, exempted from service tax; (iv) The number of returns and forms to be filed reduced etc.

14. Concessions and Exemptions. A large number of tax benefits and exemptions have been granted to liberalize import and promote exports. These include reduction in the peak rate of customs duty to 10 per cent; significant reduction in duty rates for critical inputs for the Information technology sector, which is an important export sector; grant of concessions for building infrastructure by way of 10 years tax holiday to the developers of SEZ; facilities and tax

benefits to exporters of goods and merchandise: reduction in the customs duty on specified equipment for Ports and Airport to 10 per cent to encourage the development of world-class infrastructure facilities etc. A number of tax benefits have also been announced for the three integral Parts of the 'convergence revolution' - the Information Technology sector, the Telecommunication sector and the entertainment industry.

According to Economic Survey, 2009-10 only 51.1 per cent of the national customs duties was collected in 2007-08 and the collection percentage worsened to 44.6 percent in 2008-09. Thus, while imports increased by 35.8 Per cent in 2008-09 (in rupee terms), collections barely rose, largely due to exemptions, which resulted in 55 per cent of notional duties being foregone. In fact, revenue foregone on account of export promotion scheme was as high as Rs 59,149 crores in 2007-08 and Rs 49,053 crores in 2008-09 and Rs. 43,622 crore in 2009-10.

20.8 A CRITICAL EVALUATION OF THE NEW TRADE POLICY

The trade policy reforms initiated in 1991 have drastically changed the foreign trade scenario and have resulted in the shift from inward-oriented to an outward oriented policy. With the sweeping liberalization process that is currently underway in the foreign trade sector, the level of protection to Indian industry has declined significantly as the government has resorted to a massive cutting down of import tariffs and allowing more liberal imports of a number of goods whose imports were earlier either totally banned or severely restricted. The euphoria and enthusiasm generated by the large-scale trade policy reforms in recent years and talks of globalization etc. have led many in the official and non-official circles to regard the foreign trade sector in India now as the 'leading sector' of the economy - a sector that will change the face of the economy in the coming years giving it a strong push up in the world economy. However, in this euphoria, one should not ignore the following three issues which, according to Deepak Nayyar, are of fundamental or strategic importance in planning for industrialization - the relative importance of the home market, the nature or the degree of State intervention, and the acquisition or development of technology.

1. Relative importance of the home market: As far as the issue of the relative importance of the home market is concerned, Deepak Nayyar argues that in

large countries like India, where the domestic market, is overwhelmingly important, sustained industrialization can only be based on the growth of the internal market. In the ultimate analysis, large economies must endeavor to internalize external markets. Therefore, industrialization may stress manufacturing for the domestic market through import substitution or manufacturing for export to external markets. “ln terms of an appropriate strategy for industrialization, striking a balance between import substitution and export promotion is the equivalent of ‘walking on two legs.’ ... An environment that produces a spectacular exports performance is also conducive to efficient import substitution and rapid economic growth.”

2. The nature or the degree of State intervention. As far as the issue of State intervention in the process of industrialization is concerned the experience of the second half of the twentieth century shows that the guiding and supportive role of the State has been at the foundations of successful development among the late industrializes. This is true not only in the cause of the centrally planned economies of Eastern Europe but also in the case of the market economies of East Asia. According to Deepuk Nayyar, in terms of State intervention, there is not much to distinguish between import substitution and export promotion. In the former, the State protects the domestic capitals from foreign competition in the home market while in the latter, the State protects the domestic capitulars from foreign competition in the world market. It is the ‘nature’ of State run that matters. It is this nature and degree of State intervention in the foreign trade sector that deserves serious attention in the context of planning for industrialization. “The experience of-India illustrates that it is possible for State intervention to create an oligopolistic situation in a competitive environment, just as the experience of the Republic of Korea illustrates that it is possible for State intervention to create a competitive situation in an oligopolistic environment.

3. Acquisition or development of technology. As far as the issue of technology is concerned, Nayyor argues that the existing market structure and policy framework have not combined to provide an environment that could accelerate the absorption of imported technology and foster the development of indigenous

technology, or create a milieu which could be conducive to diffusion and innovation. It needs to be stressed that the role of the government is crucial in planning for technological development across sector and over time. This requires the formulation of a policy regime for the import of technology (planning for the acquisition of technology, taking steps for its absorption, adaptation, diffusion etc.), allocating resources for research and development, and evolving State procurement policies.

The above discussion points out the vital fact that the 'macroeconomic interconnections' between the foreign trade sector and the overall process of planning for industrialization are crucial. The solution to the problems of the national economy cannot be found through the foreign trade sector or simple recipies associated with it. On the other hand, the problems of the foreign trade sector can be resolved to a considerable extent, through an improved performance and a better management of the economy at home. "In other words, the tail cannot wag the dog.

Export Targets and Achievements. The First Supplement to Foreign Trade policy (FTP), 2004-09, released on April 18, 2005 kept the export target for 2005-06 at $ 92 billion which was exceeded as the exports touched the level of $ 103 billion in this year. The Second Supplement to FTP (2004-09) released on April 7, 2006 kept the export target for the year 2006-07 n $ 120 billion which was again exceeded as the exports touched the level of $ 125 billion. Since exports were $ 63.84 billion in 2003-04, this means that exports almost doubled during this three year period. This implies an annual compounded growth of 25 per cent compared to 12.73 per cent in the previous three years. Emboldened by this, the Third Supplement To FTP (2004 09) released on April 19, 2007 and the export target for the year 2007-08 at $ I60 billion. As against this, actual exports in this year were $ 163 billion. The fourth and the last Supplement to FTP (2001-09) released on April 11, 2008 kept the export target for the year 2008-09 at Rs 200 billion. However, in view of the recessionary conditions in the global market, the government of India scaled down this target to $ 175 billion in February 2009. The actual exports in this year were $ 185.3 billion. However, they fell to $ 178.8 billion in 2009-10. The year 2010-11 saw a massive increase of 40.5 per cent in exports and export earnings in this year touched $ 251.14 billion. Exports rose further to $ 304.6 billion in 2011-12 registering a rate of growth of 21.3 per cent over the previous year 2010-11.

20.9 FOREIGN TRADE POLICY (2009-14)

The government announced its new foreign trade policy covering the five-year period 2009 to 2014 on August 27, 2009.

The key objectives of FTP (2009-14) are as follows:

1. The short-term objective is to arrest and reverse the declining trend of exports and to provide additional support to sectors hit badly by recession in the developed world.

2. The policy aims to achieve an annual export growth of 15 per cent for two years 2009-11; with an annual export target of $ 200 by March 2011.

3. The Commerce Ministry hopes that for the remaining three years of the FIP, the country would return to a high export growth path of around 25 per cent per annum so that the exports of goods and services will double by March 2014.

4. The long-term policy objective for the government is to double India's share in global trade by 2020 (from 1.64 per cent in 2008 to 3.28 per cent 2020).

Main Features of FTP (2009-14):- The main features of FTP (2009-14) are as follows:

1. Expansion of Focus Market Scheme. At present, India's exports are highly concentrated in Europe (36 per cent), the USA (18 per cent) and Japan (16 per cent). Since these traditional market for Indian exports have been the worst hit in the current global financial crisis, there has been a 'demand slump' for Indian exports. To counter this demand slump, FTP (2009-14) has added 26 new markets to the Focus Market Scheme. These include 16 new markets in Latin America and 10 in Asia-Oceania, including

comparatively larger markets such as South Africa, Brazil and Mexico. This diversification of exports markets should help in increasing export earnings.

2. Incentives under FMS and FPS. Incentive available, under the Focus Market Scheme (FMS) has been raised from 2.5 per cent to 3 per cent while incentive available under Focus product Scheme (FPS) has been raised from 1.25 per cent to 2 per cent. Engineering products such as agricultural machinery, parts of trailers, sewing machines, hand tools, garden, tools, musical instruments, clocks and watches and railway locomotives, value-added plastic products, jute and sisal products, technical textiles. Green technology products such as windmills and wind turbines, electrically operated vehicles, project goods, and certain electronic items have been included in FPS.

   Export of products like pharmaceuticals, synthetic textile fabrics, value-added rubber projects, value-added plastic goods, textile made-ups, knitted and crocheted fabrics, glass products, certain iron and steel products and certain articles of aluminum would be eligible for FMS. If exports arc made to 13 identified markets (Algeria, Egypt, Kenya. Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Cambodia, Australia and New Zealand).

   Market-linked FPS benefits have also been extended for export to more new markets for certain products. These products include auto components motor cars, bicycles and parts, and apparel, among others.

3. EPCG Scheme. FTP (2009-14) has allowed zero-duty import of capital goods tor engineering and electronic products, basic chemicals and pharmaceuticals, apparels and textiles, plastics, handicrafts and leather. These are the sectors in which India enjoys a comparative advantage and the zero-duty capital goods import facility should go up gradation. Companies can avail of this scheme till March 31, 2011.

   Moreover, in order to increase the life of existing plant and machinery, export obligation on import of spares,' moulds under the EPCG scheme has been reduced to 50 per cent of the normal specific export obligation.

4. DEPB Extended :- The Duty Entitlement passbook Scheme, which neutralise the incidence of customs duty on the import content of export products was extended by a year to December 2010.

5. EOUs:- Export-oriented Units (EOUs) have been allowed to sell products manufactured by them in DTA (domestic tariff area) up to the limit of 90 per cent instead of existing 75 per cent. EOUs will also be allowed to procure finished goods for consolidation, subject to certain safeguards.

6. Thrust for Value-Added Manufacturing. To encourage value-added manufactured exports, a minimum 15 per cent value addition on imported inputs under Advance Authorization Scheme has been prescribed. Project exports and a large number of manufactured goods have been brought under FPS and MLFPS (Market Linked Focus Product Scheme).

7. Simplification of Procedures, Reduction in Transaction Costs. FTP (2009-14) has announced several measures to rationalize procedures and reduce transaction costs. For instance, (i) the application and redemption forms under the EPCG scheme have been simplified; (ii, maximum fee on license slashed to Rs 1 lakh from Rs 1.5 lakh (manual applications) and to Rs 50.000 from Rs 75.000 (electronic applications); (iii) in order to reduce transaction costs, dispatch of imported goods directly from the port to the site has been allowed under the Advance Authorization Scheme for deemed supplies (earlier, duty-free imported goods could be taken only to the manufacturing limit of the authorization holder or its supporting manufacturers); (iv) to facilitate duty-free import of samples by exporters, Number of samples or pieces has been increased from 15 to 50. Custom clearance of these samples shall be based on declarations given by the importers for value and quantity of samples: (v) the government has allowed disposal of manufacturing wastes, after payment of the excise duty: (iv) the Ministry is promoting the use of electronic systems with initiatives like electronic data interface (EDI) ports, electronic message exchange between Customs and the Directorate General of Foreign Trade.

8. Other Initiatives. In addition to the above measures, FTP (2009-14) has announced a number of other initiatives to increase exports. Some of these initiatives are as follows:

- To make India a diamond international trading hub. It is planned to establish 'Diamond Bourses'. The first one has come up in Mumbai.
- Export-oriented instant tea companies can sell up to 50 per cent produce in DTA. Tea exports has also been made eligible for VKGUY Scheme benefits.
- A single-window system to facilitate export of perishable agricultural produce has been introduced. The system will involve creation of multifunctional nodal agencies to be accredited by APPEDA.
- Leather sector will be allowed re-export of unsold import raw and skins and semi-finished leather from public bonded warehouses, subject to payment of 5O per cent of export duty.
- To participate in overseas exhibitions. Exporters may carry merchandise worth $ 5 million with them as against $ 2 million allowed earlier. The limit of personal carriage as samples for export-promotion tours, has also been increased to $ 1 million.
- Income-tax exemption to 100 per cent EOUs and STPI (Software Technology park) units has been extended up to March 2011.
- Accepting a long-standing demand, exporters have been assured that their need for dollar credit, especially to the small and medium enterprises, will be met in a timely manner. An inter-departmental committee has been set up to ensure credits to exporters.

Commenting on the FTP (2009-14), K.T. Chacko, director of Delhi-based Indian Institute of Foreign Trade, said that while the three pillars of foreign trade growth - (i) infrastructure, (ii) reimbursement of duties and (xi,) reduction in transaction costs have been addressed, the policy has restricted itself to the near term objective of sustaining the current level of exports. According to him, "The policy has done little from the stability point of view as fiscal sops have been offered only till 2011. He also pointed out that something needs to be done for exporters obtaining cheaper bank finance, “something that has been happening in countries which are our competitors.”

Annual Supplement to FTP, April 2013

The government announced its last Supplement to the Foreign Trade Policy (2009-14) on April 18, 2013. Some of the important measures announced in this Supplement were as follows:

1. Minimum land requirement for SEZs reduced. The minimum land criteria to fulfill the contiguity criteria has-been reduced. The requirement has been reduced by half for multi-product and sector-specific SEZs. For multi-product SEZs, the minimum land area requirement has been reduced to 500 hectares, from 1,000 hectares. For sector-specific SEZs, this has been reduced to 50 hectares, from 100 hectares. For information technology (IT; SEZs), which contribute the most to SEZ exports, the minimum and criteria has been done away with. However SEZ developers would have to fulfill a minimum built-up area criteria. These measures will be applicable for new SEZs.

   The government has also allowed transfer of ownership of SEZ Units, including sale, for players who want to output. This has been done as the SEZ policy does not have a clear exit route.

2. EPCG scheme, The government has also weaked the Export promotion Capital Goods (PCG) scheme by merging the zero-duty EPCG scheme, which expired in March 2013, with the 3 percent one. This is expected to give a fillip to investment inflows in capital goods. Additionally for the benefits of textile exporters, the government has merged zero-duty EPCG scheme with the technology Up gradations Fund Scheme.

3. Interest subvention scheme. The 2 per cent interest subvention scheme has been extended and engineering sectors.

4. Market and product diversification, Norway has been added under Focus Market Scheme ,and Venezuela has been added under Special Focus Market scheme. The total number of countries under Focus Market scheme and Special Focus Market Scheme now become 125 and 50 respectively.

   About 47 new products have been added under Market Linked Focus Product Scheme (MLFPS). These products are from engineering auto components and textiles sectors. Two councils. i.e.. Brunei und Yemen have been added as new markets under MLFPS.

5. Incremental Export Incentivisation Scheme. Incremental Export Incentivisation Scheme announced in December 2012 for exports made during January 2013 to March 2013 to USA, EU and Asia, has been extended for the year 2013-14. Moreover, 53 countries in Latin America and Africa have been added with the objective to increase India's share in these markets.

While the government has not officially stated the figure. It is estimated that the package announced could be to the tune of Rs 1500-2000 crores.

20.10 SUMMARY

1. The period after 1991 has been marked by a substantial liberalisation of the trade policy.

2. Foreign trade policy at the time of pre-reform period exhibits exports promotion but imports policy shows various restrictions.

3. The trade policy reforms initiated in 1991 have drastically changed the foreign trade scenerio and have resulted in the shift from inward-oriented to an outward orientied policy.

4. With the introduction of liberalisation process that is currently underway in the foreign trade sector, the level of protection to Indian industry has declined significantly as the govt. has resorted to a massive cutting down of import tariffs and allowing more liberal imports of a number of goods whose imports were earlier either totally banned or severly restricted.

20.11 QUESTIONS

Q.1 Describe the reforms introduced in foreign trade sector after 1991 period.

Q.2 Explain critically the new trade policy of India.

Q.3 Describe in detail the Foreign Trade Policy of India. (2009-14)

REFERNCE / SUGGESTED READING :

- Misra & Puri, "Indian Economy", Himalaya Publishing House Pvt. Ltd., Mumbai

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M.A. ECONOMICS LESSON NO. 21

COURSE NO. ECO 204 SEMESTER-II UNIT-IV

FDI IN MULTI-BRAND TRADE & SAFE GUARDS

Structure

21.1 OBJECTIVE

After going through this lesson, you will be able to :

- Explain the arguments for aand against FDI in Multibrand trade.
- Explain the safeguards with which India allowed FDI in Multibrand Trade.

21.2 INTRODUCTION

Effectiveness of regulations depends not only upon the regulations themselves, but also on the regulator and the environment in which they are implemented. Emergence of regulations can in turn be dependent upon these three. Will and wherewithal on part of the regulator on one hand and public pressure on the other are critical for successful implementation. Half-hearted, negligent and poor implementation of regulations can benefit some at the cost of others who are less influential, less vocal or devoid of adequate resources. Equally importantly, if the regulator does not have the requisite information or is constrained by factors beyond his control, then again, the regulations may not achieve the desired objectives.

After a long and winding process spanning nearly one and a half decades starting from permitting 100% FDI in Cash & Carry Wholesale Trade (CCW) through the approval route in 1997, the government finally allowed FDI up to 51% in multi-brand retail trade (MBRT) in September 2012, albeit with some caveats. In between, in February 2006, entry into CCW was eased form approval route to the automatic route. It was also for the first time that FDI up to 51% was allowed in single brand retail trade (SBRT), through the approval route. Though Metro of Germany (Ranked 4th globally in 2011) entered in 2001 into CCW business as a 100% foreign owned entity and there was the case of Hong Kong-based Dairy Farm International joining hands with Spencer's and Shoprite's (South Africa) franchise arrangement with the Nirmal Lifestyle group, he ball really started rolling since 2006 and led to the entry of Wal-Martof USA and Carrefour of France, respectively ranked No 1 and 2 globally, in 2007, the former as a 50:50 joint venture with India's Bharti group and the latter as a l007a foreign subsidiary. Another major global retailer, Tesco of UK (global rank 3) preferred to follow the franchise route. Similarly, Spar of Netherlands entered into a franchise agreement with the landmark group.

21.3 ARGUMENTS FOR & AGAINST FDI IN MBRT

Retail FDI merit of RFDI for the following reasons.

1. Vastly reduces/eliminates the role of multiple intermediaries thereby helping farmers to get better prices for their produce.

2. Promotes investment in supply chain which is important for minimizing post-harvest wastages which are estimated to be extremely large at present. Retailers will help farmers to adopt better farm management practices thereby contributing

to modernization of agriculture.

3. Entry of new players will increase competition both for procuring goods as also for selling to the consumer. Consumers benefit through lower prices and this in turn will help fight inflation.

4. Worldwide large and small retailers are seen to co-exist. Competition in fact, forces the traders and other retail outlets to upgrade and become more efficient, thereby providing better services to consumers and better remuneration to the producers. Consumers also benefit from the imposition of better quality and safety standards by the retailers.

5. Both farmers and local small and medium enterprises will gain access to larger market—not just domestic but international as well.

6. The economy would see infusion of large amount of foreign investment which is needed both for its, technology and management practices but also to help bridge the large and sustained current account gap.

7. Creates large scale quality employment both in the front end retail as also in the supply chain.

8. Better revenue collection for the government.

9. Better ambience and shopping experience for the consumers.

Those opposing RFDI emphasise that:-

1. Rather than creating jobs it will destroy employment and result in loss of livelihood for millions of Indians directly through closure of kirana shops and street vendors and indirectly through pressure on domestic suppliers to cut costs. Imports will inundate the market and kill local small industries just as they did in America, again resulting loss of employment.

2. Prices may come down initially, but once the global retail giants acquire control over both ends of the market they will start dictating terms—procurement and marketing. Thus both producers and consumers will lose

ultimately. The initial predatory pricing will eliminate many small stores. The existing supply chains will be destroyed beyond repair leaving the farmers to the mercy of large retailers.

3. The proponents not only highly exaggerate the post-harvest losses, they also ignore the huge amount of wastages by retail chains

4. In spite of cold storages being open for FDI for a longtime, no worthwhile investment has been made so far.

5. The so-called low prices for the consumers are often made possible through denying the minimum benefits to the employees (of retail chains as also of the suppliers) thereby transferring the burden to the state. Subsidies to farmers in the developed world indirectly contribute to the chain' low prices of farm produce.

6. Western large retailers are focusing on newer markets due to the difficulties their home economies are facing. Helping Indian farmers, producers and consumers is the last thing on their minds though such arguments are used to gain entry.

7. Some see it as abrogation of its responsibility by the government to build agricultural infrastructure Investment in backend infrastructure to the extent it happens through RFDI will be private and the benefits too will remain private and thus not reach the broader farmer community which is dominated by small holders.

8. The retail chains are yet another mechanism through which global agribusiness interests come to extend their control.

9. Some see the benefits of large retailers but advocate caution and calibrated approach to minimize the costs.

21.4 SAFEGUARDS

India allowed FDI in multi-brand retail trade with certain safe guards which, according to the government, adequately address the perceived ill effects and ensure delivery of the expected benefits. The main conditions RFDI would be subjected to are the following:

i. Limit on foreign enquiry at 51%.

ii. Fresh agricultural produce may be unbranded.

iii. Minimum inflow of $100 million.

iv. 50% of the inflow to be invested in backend infrastructure.

v. At least 30% of the value of procurement of manufactured/processed products to be sourced from Indian 'small industries'.

vi. Self-certification by the company, to ensure compliance of the conditions at serial nos. (iii), (iv) and (v) above, which could be crosschecked, as and when required.

vii. Retail outlets can only be set up in municipal limits of cities with at least 1 million population (states not having such cities will have the freedom to permit RFDI outlets in other locations); individual states retain the right to permit or prohibit RFDI.

viii. Government will have the first right to procurement of agricultural products.

ix. Retail trading by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of multi-brand retail trading.

Effectiveness of these conditions will depend upon the manner in which the guidelines are drawn. Having crossed the major hurdle of getting the basic change made in India's policy towards RFDI, unlike in 2011 when the policy had to be kept in abeyance for want of 'consensus', the foreign retail majors can bargain further Indeed, they are already engaged in, seeking clarifications regarding these conditions from the government. For instance, representatives of Wal-Mart and Tesco met India's Minister for Commerce & Industry at the World Economic Forum meeting in Davis towards the end of January 2013 wherein the Minister was reported to have promised to do the necessary 'handholding'. Tesco is also using the visit of the British prime minister of India during February, 2013 tobolster its case.

21.5 RETAIL UNDER THE GARB OF CCW

There has been extensive debate and consultation in India regarding RFDI. A dominant feature of this discussion been that it revolved around Wal-Mart, the world's largest retailer, directly or indirectly. Indeed, the entry of Wal-Mart is the most talked about cases of foreign investment in India after Enron because of various reasons including the already existing large amount of literature on Wal-Marts operations at home and globally, sustained intense lobbying by the company both in USA and India and finally the nature of arrangement it has entered into with India's Bharti group, a leading telecom operator. While it can be said that the policy could not have been meant exclusively for Wal-Mart, in effect, due to the intensive lobbying made by the company, and it being at the centre of controversy for its practices and the impact at home and abroad, one cannot deny the fact that the company could be the main beneficiary if not the only beneficiary from the opening up of MBRT. On their part the opposition, who see in Wal-Mart's disclosure of lobbying in USA including discussions related to FDI in India, the possibility of educating Indians a la Enron, forced the government to appoint a committee which is named as Wal-Mart inquiry Committee. Before proceeding further it may be useful to briefly narrate the experience with CCW, which was a precursor to RFDI as this, in our opinion, will have a bearing on the policy with regard to RFDI. CCW was meant to pass on the benefits of large scale procurement and efficient supply chain to neighborhood shops instead of replacing them. In practice, however, the CCW companies were engaged in retail sales too.

21.6 SOME OPERATIONAL ASPECTS OF SAFEGUARDS

Given the manner in which foreign investors secure their rights, often reducing the Indian collaborator to just a sleeping partner, one is not sure how the 51% cap can help. In fact, keeping in view the strong opposition, foreign retailers were even prepared to accept a 'minority' share of 49%. The Indian partner can neither share the brand name nor did the knowledge embed in the databases of the foreign retailersand their global supply chains which is their main strength. From many indications and past experience this is going to be an intermediate stage and the limit could be raised progressively. In fact, the 51% limit may provide the foreign investoran opportunity to tap more local risk capital than otherwise.

The minimum investment of $100 million is too small an amount (corresponding minimum investment in backend infrastructure will be about Rs. 250 crores) to make meaningful contribution to development of backend infrastructure especially as such infrastructure is defined to cover a wide variety of activities. Since there is no bar on accessing domestic capital market, deployment of local financial resources may further reduce the effectiveness of this requirement. Additionally, will partial or complete takeover of existing logistics operations be considered as investment for this purpose? Should the investment be on a continuing basis or, can the foreign investors withdraw from it after sometime, with or without premium on the investment? Some of these may sound farfetched but given the way things have gone so far, such possibilities cannot be ruled out. Unless the loopholes in operation of CCW operations, which have no such restrictions, are plugged, the foreign companies may now freely combine the two (and franchising) and avoid spending substantial amounts on backend infrastructure. Once again, given the manner in which the CCW policy has been operating, the stipulation on the location of retail outlets may not prove to be a big hurdle. Many of the 'easyday' outlets are already in states which are not prepared to allow RFDI. It is relevant to note that Bharti and Wal-Mart have been consistently maintaining that their operations were in conformity with the official policy. A lot of emphasis has been placed on the requirement of sourcing a minimum of 30% requirement from Indian small industries. Going by the official criterion which identifiessmall industries only on the basis of investment in plant and machinery with no reference to the ownership, quite a few possibilities suggest for themselves. Fint of all, why the investment limit was expressed in terms of US dollars whereas the MSMED Act, 2006 defines small enterprises as those having investment in plant and machinery between Rs. 25 lakh and Rs. 5 crores? Will the investment limit for RFDI change according to the exchange rate? We do not think the policy makers would be having such a ridiculous possibility in mind. However, devoid of the ownership criteria even 100% foreign-owned companies can qualify as small industries. What one generally perceives as small need not necessarily be small at all. It can be a subsidiary/associate of a foreign company a large/ medium Indian company. It could just assembling doing some final processing or even doing repacking of a nearly finished (imported) product. Will rice, flour, edible oils and split pulses be counted as processed items? The larger the basket, the less effective will be the condition. In fact, this condition might be relaxed as it was done for SBRT. The 30% requirement in any case, does not act as a safeguard against large scale imports.

It also needs to be underlined that the franchise agreements need not be confined to knowledge of supply chains but could actually be another backdoor entry is illustrated by the arrangement between Tatas and Tesco). Implications of such arrangements with obliging Indian arties for investment in backend infrastructure, sourcing from small industries and locational restrictions are obvious.

According to the official press note, compliance with the conditions is to be ensured through self-certification and certification by the auditors. This could be cross- checked as and when required. While the notification is not specific in this required, we presume that this will be by the government. Given the manner in which official agencies behaved at various instances, it is highly debatable how much reliance one can place on this provision.

While providing access to global market for domestic agricultural produce and local small and medium enterprises through large retailers figure in the official schemes of thing surprisingly no obligations are being placed on them to generate export revenues. The issue of employment impact studies for each store proposed by the labour ministry also do not figure among the conditions. The proposal of minimum sales requirement to local retailers by the large retailers, proposed by the official Discussion Paper is also missing from the list.

By way of Summing Up

What concerns us more is that the RFDI to provide a classic example of large global corporations succeeding in influencing public policy of developing countries and putting the regulatory system to stupor with the backing of powerful home governments. Starting from the mid-2000s when it started seeking to expand its global operations, there have seen repeated attempts by senior Wal-mart of official to meet important relevant functionaries in India. Once the policy maker were convinced either on their own or due to the intense and sustained lobbing from abroad, the process has been unidirectional. It also fall into the usual pattern of blindly following others without caring for their essence and India's ground realities. It could also be reflective of the faith in textbook type results. Otherwise it would be difficult to explain some of the omissions and commissions. Given this background and the weaknesses already described, one cannot expect much from the safeguards. A lot depends upon the way the actual guidelines are farmed. One cannot rule out the possibility of the guidelines being tailored to meet me foreign investors' convenience.

It also needs to be underlines that large retail chains and some foreign- owned SBRTs are going to hurt not just the kirana stories but a number of other trades. It would therefore have much greater adverse impact on entrepreneurship development. Equally importantly, the so-called safeguards do not address the concerns of the vast number of farmers and small traders. No company would spend millions on lobbying just to get the opportunity to serve India's interests. On the other hand, while the government took comfort from the fact that India is not a signatory to GATS and that the Bilateral Investment Promotion Agreements (BIPAs) would come into play only with regard to post-approval changes in the policy environment, one is not sure whether the existing BIPAs and Free Trade Agreements (FTAs) would leave some scope for action on part of foreign investors especially because the investors can pick and choose the provisions from among all the agreements which suit them the best.

On one hand the government extrapolates the finding that organized retail in India did not cause much negative impact on small traders and on the other it expects the opening up to be a game changer thereby implying that foreign retail majors are vastly different from Indian organized sector players. Again, the government told the Supreme Court that since RFDI will be limited to 53 cities with a minimum population of 1 million and hence only 13.3% of India's population will be covered by RFDI thereby implying that negative impact on small traders if at all would be quite limited and localized. Does this mean that the policy will remain static for all times to come? If this was to be the case why would the government put its own survival at stake and resort to deft floor management to carry the day. It is once again obvious that the negative impact is sought to be underplayed so that the opposition will be blunted and the process of opening up can be carried further subsequently with much less opposition.

There is sufficient evidence to the effect that the companies use local finances, make payment parents and other foreign affiliates on much counts.FDI inflows could be more than balanced outflows on multiple counts even before the come become profitable and start remaining dividend example, looking solely at Bharti Wal-Mart Pvt is evident that within 4 year of its formation, the of Rs. 100 crores in the form of equity participate Wal-Mart has been more than balanced by out on account of a variety of transactions, activities imports (Rs. 1,100 crore). BWM also paid about 148 crore to WM India technical and Consult Services Pvt Ltd a 1007 subsidiary of the Wal-group, during 2007 - 20ll on account of service royalty. BWM's 201I accounts show that again total equity capital of Rs. 200 crore (of which Bhatie contribution was Rs. 100 crore), it depended up, much as Rs. 1,100 crore loans from local Carrefour's imports amounted to Rs. 180 crore in alone, whereas the capital inflow on its account including premium, was Rs. 230 crore and to company declared that it had no plans for export.

21.7 SUMMARY

In sum, the protection offered by the safeguards is illusory. The net addition to investable capital could also be short-lived. On the other hand, an area of major concern is the support extended by the major industry associations of India to RFDI. It is a clear indication that they have moved far way from small businesses whether in manufacturing or in trade. Their plans to free ride on the back of FDI companies will be transitory. Worse still, some of those who are already in may even be hoping to cash out.

21.8 QUESTIONS

Q.1 What do you mean by FDI in multi-brand trade?

Q.2 Discuss the pros and cons of introducing FDI in multi-brand sector.

Q.3 Explain the safeguards created by India with which, India allowed FDI in MBT in order to curb its ill effects on the economy.

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