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LESSON NO. 2.1

FEATURES OF INDIAN TAX STRUCTURE

Introduction

"Taxes are like hails which destroy the crop...................... The best tax system is that which has the least bad economic effects."

Thus tax policy of a country must be very sound, and in the context of developing countries like India, it must be geared towards accelerating the role of economic growth. Taxation must raise the level of savings and investible resources. In the words of Dr. Raja J. Chelliah, the best system is that which mobilises the existing and potential economic surplus. By existing economic surplus we mean excess of current income from current consumption. If this surplus is used or channelised to productive investment the tax system must mobilise the same and use it for productive purposes. Potential surplus is the difference between current income and minimum consumption. A sound tax system must also help in increasing the amount of economic surplus. Further, as the economy develops and per capita income increases because of high MPC, increase in consumption is likely to follow the increase in income. Sound tax system should not allow it to happen as then little will be left for investment. Therefore, the general emphasis in tax system must be curtailing consumption standards. Moreover, whenever savings are promoted through tax system, they should also be diverted in the desired channels.

A necessary feature of all developing countries is the increasing inequalities in the distribution of income. Developing process of the present developed countries has also witnessed these growing inequalities. So increasing inequalities are interwoven with the development process. But excessive inequalities are the potential sources to generate political and social instability. Moreover, they are no longer tolerable in the present democratic world. Therefore as far as possible a sound tax system must make an attempt to reduce these inequalities. For this progressive direct tax system may be more appropriate than the indirect taxes which are basically regressive. However, care should be taken that tax rates are not unduly high which discourage the incentives to work, save and invest.

Further, since the development needs of developing countries are insatiable, therefore, in these countries even the poorest will have to pay taxes. However, as far as possible, the principle of ability to pay must be observed while collecting taxes from different individuals. A person's ability to pay taxes can be measured in terms of that part of economic surplus accruing to him, which he is not utilizing for productive investments. The greater the surplus which a person has above his minimum necessary requirements, the greater should be his contribution.

Another important objective of a sound tax policy in a developing economy is to check inflationary tendencies. Inflation is inherent in all developing countries. In the initial economic development since large investments are undertaken and there is always a time lag between investment and output, the prices rise in the mean time. It is now generally believed that taxation can play a vital role in checking these inflationary tendencies, particularly if these are of demand pull types. Taxes both direct as well as indirect, by reducing the disposable income can exercise restraints on demand. In the words of Taxation Enquiry Commission (1953-54)

"Taxes that fall directly on the large additional income, and commodity taxes that fall on the increase in general purchasing power resulting from inflation have a significant part to play in anti-inflationary policy."

Finally, in a sound tax policy no one should feel that he is being discriminated. There should be no tendency for tax evasion. Tax system administration should not unnecessarily harass the honest tax payers.

SALIENT FEATURES OF INDIAN TAX SYSTEM :

In the light of above discussion we will now examine the salient features of the Indian tax system. If we carefully study the Indian tax system the following features will emerge :

1. India is a highly Taxed Nation :

Contrary to common belief, India has emerged as one of the highly taxed nations in the world. Ever since advent of planning we have been imposing new taxes and raising the marginal rates of existing taxes. The rates of existing taxes sometimes have been raised to astronomical figures. Apart from Central and State taxes which an average Indian has to pay, he has also to feel the pinch of deficit financing. Deficit financing is infact a form of concealed taxation, whereby the government gets hold of the resources by reducing the real income of the people (as a consequence of rise in prices) associated with deficit financing. Then sometimes government resorts to compulsory borrowings, another form of concealed taxation. Thus an average Indian has to pay both open and concealed taxes, the latter being mostly unthinkable in other countries. The upper taxable limit (25 percent) as suggested by Kaldor has already been crossed. People are now carrying the crushing burden of both direct and indirect taxes.

2. Multiplicity of Taxes :

During the Five Year Plans taxation in India has been used as one of the main instruments to raise revenue and to achieve the various socio-economic objectives. Now taxes have been imposed and tax rates have been increased to mobilize a large part of the income created as a result of economic development. Tax structure in

India has been formulated in such a manner that all relevant ability indices are taxed in so far as direct taxes are concerned. A tax payer has to pay income tax when he earns income, he has to pay wealth tax if he accumulates income and he has to pay gift tax when he transfers that income to others. If he sells the accumulated wealth he has to pay capital gains and if he dies and leaves his accumulated wealth to his heirs, estate duty will have to be paid. In the field of indirect taxes also, duties have been levied on new items and increased on old items. Taxes on the production of commodities (Union excise duty) as well as sales or consumption of commodities (Sales tax) are imposed. But it is a dichotomy of the Indian tax system that while the former is imposed by the central government, the latter is levied by the State governments.

3. Budgetary Trends-Surpluses or Deficits :

Another note-worthy feature of Indian tax system has been excess of its collections than requirements. To be specific we have been having surpluses on revenue account and those surpluses are often used to finance capital expenditure. It is only on capital account that our budgets are deficit. On both the accounts taken together, however, our budgets turn out to be deficit. It may be emphasised that lately even on revenue account our budgets are turning deficit because of the rapid growth of non-plan expenditure.

4. Complicated Tax Structure :

As already stated, year after year, we have been imposing new taxes and raising the rates of existing taxes. Consequently our tax structure has become very complicated. It lacks the canon of simplicity and certainty. In the words of Raja J. Chelliah our knowledge about taxes becomes obsolete with a remarkable speed. On the other hand, our population is illiterate. Majority of the people cannot understand this complicated tax structure. This has led to various malpractices. Tax administration has become dishonest and corrupt. An average tax payer has fallen victim to the corrupt tax officials who have earned huge tax amounts of black money. In fact, even if an honest tax payer wants to pay tax honestly he is not allowed to do so. He is harassed by officials. Most often the tax administration in collusion with the tax payers exploit the government treasury. Various commissions/committees have been appointed to suggest change in our tax structure so as to simplify the same. Taxation Enquiry Commission (1953- 54), Kaldor's proposals (1956-57), Boothalingam Committee Report on Direct Tax Reforms (1968), Wanchoo committee commonly known as Direct Taxes Enquiry Committee (1972), Committee on Taxation of Agriculture Wealth and Income (1972), Indirect Taxes Committee or Jha Committee Report (1978), Choksi Committee Report (1978), etc., Raja J: Chelliah's Committee (1993) are some of these in this regard. Kelkar Committee on Tax Reforms (2002), suggested various reforms in direct tax and indirect tax system. But most of its recommendations were not incorporated in the budget. Infact the government lacks the necessary willpower to implement the various proposals suggested by these commissions and committees.

5. Inequitable Tax Structure :

Although we impose a large number of taxes yet our tax structure lacks equity. According to Raja J. Chelliah our tax system does not have either horizontal equity or vertical equity. By horizontal equity is meant that all tax payers with the same level of income, irrespective of the sources of income, must pay the same amount of taxes. But we know that our agricultural sector pays less taxes than the non-agricultural sector. Persons working in the non-agricultural sector have to pay many direct taxes such as income tax, corporation tax, etc. from which the agricultural sector is exempted. It is true the agriculture sector has to pay land revenue (and in a few states agricultural income tax also) but its share now hardly constitutes a fraction of the total tax revenue. Whereas income tax and corporation tax now occupy an important place in our direct tax structure. Further, even in case of indirect taxes agricultural sector pays less taxes because it consumes only those commodities which it produces. Naturally, these commodities do not carry any tax burden.

According to Raja J. Chelliah even vertical equity is conspicuous by its absence from our tax structure. By vertical equity we mean persons having different levels of income must pay different amounts of taxes, i.e. persons with higher income must pay higher amount of taxes and persons with low income must pay lower amount of taxes. But this is not the case in India. Here generally tax burden is low for the upper classes and high for the lower classes i.e. tax burden is not positively but inversely related to income. The main reasons for this regressive tax structure are: First, our tax structure is heavily biased in favour of direct taxes which are generally regressive. Secondly, even in case of direct taxes a large number of incentives for tax saving are offered which are generally availed by the richer sections of the society. Thirdly, the incidence of land revenue, the only direct tax on the agricultural sector is fixed in amount for per acre of land. Since the per acre amount of land revenue does not increase with the size of holding or income, its burden is felt more by the poor farmers than by the richer farmers.

6. Imbalance between Direct and Indirect Taxes :

The main reasons for our inequitable tax structure is preponderance of indirect taxes. It is generally believed that due to illiteracy, small scale of production and lack of trained and efficient tax administration the importance of direct taxes is generally low in the initial stages of economic development, but as economic development picks up and the society moves to modernity the ratio of direct taxes to total tax revenue increases. But in India this has happened in the reverse direction. While in 1950-5 1 the proportions of direct taxes and indirect taxes to total tax revenue were 37 percent and 63 percent respectively, these ratios were 22 percent and 78 percent respectively in 1991-92 and these ratios have increased to 38 and 62 during 2002-03. Thus during

50 years of planned economic development, India had witnessed a substantial fall in a share of direct taxes. But now with tax reforms, the share of direct taxes in total tax revenue of the centre has been increasing. But even then the higher proportion is of the indirect taxes. In developed countries like U.S.A., U.K., Japan, etc. reverse is the case. The burden of indirect taxes we know mostly falls on the poor. Consequently, inequality in the distribution of income has increased in India.

It may be mentioned that indirect taxes, which are mostly taxes on commodities, add to inflation. As prices increase the amount of indirect taxes also increases. This further increases the prices of the commodities and thus we are caught in a vicious circle.

7. Our tax structure is not anti-inflationary :

As already stated in the introduction, inflation is in-built in the development process of a developing economy. An ideal tax structure must cure this evil. Unfortunately, because of the preponderance of indirect taxes, our tax structure is not anti-inflationary. Rather, it has added fuel to the fire of inflation.

8. Imbalance in the Tax Sources of States Vs. Union Government :

Another unhealthy feature of our tax system is the increasing dependence of the states on the Union Government for their resource requirements. There is no denying the fact that of all the federal countries in the world (U.S.A., Australia, Canada, etc.) Indian federal system is the best in the sense that there is a clearcut division of resources between Centre and the States. But while demarcating these resources our constitution makers appeared to have forgotten about the development needs of the States. While the states have to incur increasing amount of expenditure on such items as education, medical and public health, agriculture, industry, etc. but they do not have enough resources. The elastic sources of revenue like income tax, corporation tax, capital gains tax, custom duties, excise duty on production, etc., are in the hands of the Centre. Consequently, the States have to look towards the centre for more and more resources. The Central government often discriminates one state from the other in the matter of allocating funds.

9. Apathy of the State Governments to exploit the Tax Resources :

The fault does not lie entirely with the centre. Even the State governments do not exploit the tax resources assigned to them in the Constitution. For example taxes on agricultural income or any other tax on the agricultural sector lie in the sphere of the State governments. But the State governments do not levy these taxes due to the fear of loosing votes. During elections, on the other hand, many tax concessions are announced so as to brighten the prospects of winning elections. Thus the state governments too are to be blamed of the imbalance in the tax sources of the States Vs. Union governments.

10. Lack of Economy :

Another drawback of the Indian tax system is that it lacks economy. The per unit cost of tax collection has been rising very fast. The rise in cost has been particularly witnessed in case of administrative expenditure, which has been rising due to ever increasing price level.

11. Buoyant but lacks Elasticity :

As a large chunk of National Income (e.g. income from the agriculture sector) lies outside the scope of income tax, our tax system lacks elasticity. Land revenue (which is the only tax borne by the agricultural sector directly) being fixed in amount per unit of land, does not respond to income.

Likewise the burden of indirect taxes, which forms about 70 percent of the tax revenue, falls heavily on the low income people and as their income rises relative tax contribution falls.

However, it must be emphasised that though our tax system lacks elasticity but it is buoyant in nature. By buoyancy we mean the responsiveness of tax revenue to National Income including the change occurring due to change in tax rate and coverage. But by elasticity of tax we mean the responsiveness of tax revenue to National Income keeping the tax structure and coverage as constants. What has been happening in India is the increase in tax revenue due to ever widening tax coverage and astronomical tax rates.

12. Tax Evasion :

As already stated the government has been under the illusion that higher taxes mean more resources. But this has proved to be a myth.

Higher taxes coupled with many factors such as corrupt tax administration, multiplicity of taxes, etc., have generated a considerable amount of tax evasion in our tax system. Tax evasion is an illegal attempt to reduce the tax payable by deliberately under reporting or not reporting taxable incomes or concealing one's true state of affairs from tax authorities.

It is different from tax avoidance. Tax avoidance means preventing or reducing one's tax liability through manipulations within the framework of existing tax legislation. It is almost impossible to ascertain correctly the extent of tax evasion in the country because of numerous difficulties involved in the process. Any such estimate can only be a guess and would involve an element of subjectivity. However, the Wanchoo Committee estimated that on account of income tax alone, the tax evasion was to the extent of Rs.470 crore during 1968-69. Even in case of indirect taxes, tax evasion widely prevails. Business men keep two different types of account books one for the tax officials and one for self use. National Institute of Public Finance and Policy (NIPFP) in a report estimated the ratio of tax-evaded income to GDP in the range of 3.7 percent to 5.7 percent in 1975- 76, and 4.2 percent to 8.6 percent in 1980-81. Although many times concessions/tax amnesties like Voluntary Deposit Scheme, 1991, Gold Bond Scheme 1993 and Voluntary Disclosure Income Scheme 1997, are announced to unearth the black money, which is mostly due to tax evasion, this menace of tax evasion is on the rise.

GST (Goods and Services Tax)

GST is an indirct tax and has replaced many indirect taxes in India.The GST Act was passed in Parliament on 29 March 2017, and was implemented on 1st July 2017. GST is an indirect tax levied in the supply of goods and services. It will be levied on every point of sale.

Both centre and State will simultaneously levy GST across the value chain.The Centre would levy and collect central goods and services tax (CGST) and State would levy and collect the State goods and services tax(SGST) on all transactions within a State.The Centre would levy and collect the Integrated goods and services Tax(IGST) in all inter-state supply of goods and services. Proceeds from IGST will be apportioned among the State.

GST is a destination based tax.All SGST on the final product will ordinarly accrue to the consuming state.

Central taxes like central excise duty,additional excise duties,service tax,additional customs duty etc.will be subsumed in GST.

At the state level taxes,central sales tax,entertainment tax,octroi and entry tax,purchase tax and luxury tax etc will be subsumed in GST.

GST rates will be uniform across the country. The 31st meeting of Goods and Services Tax (GST) council took place in December 2018. As per the decisions of this meeting, 33 items have come down from 18% to 12% and 5% as they are common man's consumption goods. These include certain auto parts, movie tickets, computer monitors, TV screens (upto 32 inches size) religious air travel, tyres, power banks, accessories for carriages for specially abled persons, third party motor insurance, Jan Dhan account service etc. GST on MRP of any kind of shoes and sandals will now be charged on base price.

The overall impact on revenue of Rs. 5500 crore. These new GST rates are effective from 1st January 2019.

QUESTIONS FOR PRACTICE

1. Discuss the main features of the Indian Tax System
2. What are the draw backs of the Indian Tax System
3. Write a note on GST

SUGGESTED READINGS

1. Gaurav Datt and Ashwani Mahajan : Datt and Sundharam Indian Economy
2. Misra and Puri : Indian Economy
   (Use latest editions of these books)
3. B.P. Tyagi : Public Finance

LESSON NO. 2.2

FOREIGN TRADE : DIRECTION AND COMPOSITION

Introduction

The term trade is generally understood to mean exchange of goods among different individuals. If such exchange of goods takes place between two individuals or firms of the same country, it is defined as internal trade. Conversely, an exchange of goods between individuals living in two different countries is termed as "foreign trade" or "international trade." Various countries in the world produce what they are best equipped to do. On account of natural or other reasons, some countries are better equipped than others to produce certain goods. They produce those goods not only for their own use but also for exporting to other countries. In return they get from other countries what can be produced cheaper and better there. This is more economical and beneficial for every country. No country, today can afford to live without trading with other countries for long. Thus foreign trade contributes a lot to the welfare of people and the development of resources.

Foreign Trade in Historical Perspective :

India has been trading with foreign countries from ancient times. Indian handicrafts and other artistic goods were famous all over the world for hundreds of years. The modern period of India's foreign trade started with the opening of Suez Canal in 1869. The volume of India's foreign trade slowly increased. India's foreign trade suffered a decline during the First World War and then during Great Depression of 1930, but in 1933-34 the volume of India's foreign trade again steadily increased mainly due to general recovery of the world trade.

The most distinguished feature of India's foreign trade in years preceding Second World War was the favourable balance of trade in respect of merchandise goods. She was forced to export more than import in order to meet the unilateral transfer of payments to Britain in the shape of salaries and pension of British civil and military officers, interest on sterling* loans and dividends on British capital invested in India.

During the Second World War, India's foreign trade exhibited a marked tendency towards surplus balance. While large quantities of goods were exported to Britain, the engagement of Britain in war did not permit her to export to India adequate quantities of goods in return. Thus India was able to build huge sterling balances of Rs. .1733

* Sterling is the U.K. Pound. Some other countries also have Pound as their currency, but this is not included in sterling

crores as on 5th of April, 1946.

Value of British imports and exports rose during 1938-39 to 1947-48 as has been shown in Table 1.

Table I
Foreign Trade of India During
1938-39 to 1947-48 (Rs. Crores)

YEAR	EXPORTS (Including re-exports)	IMPORTS	TRADE BALANCE
1938-39	169	152	+ 17
1944-46	266	245	+ 21
1946-47	319	288	+ 31
1947-48	403	389	+ 14

Foreign Trade since Independence :

The partition of India upset greatly the trade equilibrium. The launching of development schemes had necessitated large imports of plant and machinery and raw materials. Faced with an acute food shortage, India had also to import a large amount of food grains. Thus during the period after independence and before the commencement of First Five year Plan, India started experiencing adverse balance of trade.

In September, 1949, India devalued her currency by 30.5 percent with the main objective of increasing exports to dollar areas. But on the whole this objective could not be achieved. In 1951, the net adverse balance of trade was estimated to be nearly Rs. 140 crores.

The deficit in 1951 was covered with the help of the American Wheat loan and sterling assets.

During the period of First Five Year Plan (1951-52 to 1955-56), imports rose further in value. The annual average value of imports during this period was Rs. 730 crores while average value of exports stood at Rs. 622 crores, giving rise to the average annual trade deficit of Rs. 180 crores. The main cause responsible for this trade gap was the program of industrialisation, which gathered momentum and pushed up the import of capital goods Another factor which raised the level of the imports during this period was the import of food-grain worth Rs. 595 crores.

A massive program of industrialization was started during the Second Plan period. New steel plants were established; heavy expansion and renovation of Railways and modernisation of many industries was also undertaken during this period. Due to these developmental programs, the quantum of imports reached a very high level. Foodgrains imports were also to be continued during the Second Plan period. The annual average value of imports during the period of Second Five Year Plan was Rs.

1080 crores and that of exports Rs. 613 crores, thus giving an average trade deficit of Rs. 467 crores.

Third plan period also showed an average deficit of Rs. 477 crores. Rising import level during this period was mainly due to (i) development needs of the country, (ii) huge imports of food-grains to meet home requirements, (iii) to meet the defence needs of the country following the aggressions of China and Pakistan.

In June, 1965 India's currency was further devalued by 36.5 percent. It had favourable effect on India's exports, which increased during 1966-67 and 1967-68 but on account of relative inelasticity of imports, the balance of trade situation worsened during 1966-67 and 1967-68. Trade deficit during these two years stood at Rs. 906 crores and Rs. 788 crores respectively. However with better crop production, food-grains imports declined in the year 1968-69. On the export side, devaluation showed healthy impact with the result that trade deficit declined to Rs. 169 crores with a substantial increase in imports during 1971-72 resulting in a fairly heavy deficit in the balance of trade that year. In 1972-73, however, as a result of an appreciable increase in exports, the balance of trade turned into a favorable one for the first time during the last 26 years.

During 1974-75, there was a record achievement in exports as they rose by about 32 percent over the previous year. Consequently, India again faced a deficit of Rs. 1190 crores during 1974-75. In next year, the situation almost remained the same and trade deficit continued to be heavily adverse. During this period there were difficult trading conditions in the international market due to recessionary tendencies and projectionist policies followed by the developed countries.

It was once again in 1976-77, when India's trade was in surplus to the extent of Rs. 72 crores due to faster growth in exports and a slight fall in imports.

During 1977-78, India's exports and imports increased by 4.5 percent and 19.6 percent respectively over the previous year resulting in an adverse balance of trade to the extent of Rs. 464 crores. The average annual deficit in foreign trade during the Fifth plan (1974-75 to 1977-78) was of the order of Rs. 759 crores.

Due to sharp rise in prices of petroleum products by OPEC, the import bill increased from Rs. 6811 crores in 1978-79 to Rs. 942 crores during 1979-80. As against this, export rose merely from Rs. 5725 crores in 1978-79 to Rs. 6418 crores in 1979-80. Consequently the years 1979-80 experienced a trade deficit of Rs. 2724 crores which was nearly double the deficit experienced in the previous year. There was an imprecedented rise in trade deficits - from nearly Rs. 2724 crores in 1979-80 to Rs. 5838 crores in 1980-81. The same situation continued in 1983-84. During the Seventh Plan period (1985-86 to 1989-90), an annual average trade deficit of Rs. 7730 crores emerged. This forced the government to approach the IMF/World Bank for a loan. The trade deficit continued in the subsequent years also, and kept on increasing. In 2002-

03, it was Rs. 36363 (–), in 2009-10 it was - Rs. 518202 crores, while in 2013-14 the trade deficit was Rs. 820000 crores. There are many reasons behind this continuous deficit. One is an increasing competition from China and Taiwan. Restrictive and protectionist policies of developed countries, non-tariff barriers created by them etc. were the other reasons.

Under these circumstances, India's foreign trade policy is to be increasingly geared towards the attainment of twin objectives of strengthening and diversifying the industrial promotion base and promotion of export efforts.

Composition of Trade :

It is very important to study the composition of foreign trade of a country since it indicates, through imports, the type of goods the country lacks and their quantities; and through exports, it tells us about the goods that a country can produce and about the surplus which it is willing to sell. In order to study the composition of India's foreign trade, it is necessary to analyze the changing pattern of imports and exports.

Exports :

India's exports, before it became a colony of Britain, mainly consisted of handicrafts, indigo, saltpeter, cotton and silk textiles. Britain had large quantities of factory produced goods to sell, and buy, in return, huge quantities of raw material and foodstuffs. Thus at the end of the nineteenth century, India was a great exporter of foodstuffs, plantation products and raw material and became a big importer of manufactured goods.

On the eve of Second World War, the composition of India's foreign trade distinctly showed the characteristics of an under-developed economy. Bulk of Indian exports, constituted agricultural commodities' raw materials. In 1939, manufactured goods accounted for only 29 percent of her total exports while 71 percent were composed of industrial raw material and agriculture goods.

Independence of the country resulted in the division of the country. Due to partition, best of fertile lands producing wheat and jute went to Pakistan. Thus the division of the country was responsible for change in the pattern of India's foreign trade.

Exports which had been more or less stagnant during the decade 1951-60, averaging a little over Rs. 600 per crores annually, started increasing during the period of 1961 to 1966. There has been an impressive incisive increase in the exports since then. In 2016-17 exports totalled 275852 US $ million.

The exports have not only gone up but also witnessed an increasing diversification in recent years. Exports of India can be classified into four main categories (i) food, beverages including tea, coffee, black pepper, tobacco, cashew kernel, oil cakes etc. (ii) Raw materials including raw hides and skins, wool and

Table II
Average Annual Exports of Principal Goods

(Rs. Crores)

		1951-52 to 1955-56	1961-62 to 1965-66	1969-70 to 1973-74	1975-76 to 1977-78	1988-89	1999-2000	2002-03	2011-12	2013-14
1.	Sugar	-	-	25	244	136	40	1814	8971	7273
2.	Tea	106	120	143	328	340	1785	1652	4139	4832
3.	Jute Yarn & Manufacture	149	157	221	245	166	N.A	.N.A.	1018	1395
4.	Cotton Yarns & Manufacture	81	55	163	202	244	13388	16217	21624	53914
5.	Metallic Ores	30	150	138	246	258	N.A.	N.A.	N.A.	N.A.
6.	Hides and Skins	32	35	199	215	. . .	6891	8944	N.A.	N.A.
7.	Tobacco	15	20	47	100	111	1009	1022	4006	6134
8.	Iron & Steel & Engineering goods	27	10	190	629	921	2225143474		321530	418423
9.	Oil Cakes	1	32	76	140	116	1638	1847	N.A.	17034
10.	Cashew Kernal	11	23	6	117	80	2461	2054	4450	5135
11.	Handicrafts	N.A.	NA.	N.A.	411 .	NA.	5058	5742	225881	256434
12.	Fish & Fish Preparations	NA.	NA.	NA.	137	224	5125	6928	16588	30617

other animal hair, raw cotton and waste, mica, iron ore, manganese ore, lac, minerals and some fuels, (iii) Manufactured goods, including jute manufactures,. cloth, leather, woollen carpets and rugs, chemicals, animals and vegetable oils, are silk manufactures, sewing machines, electric fans, cycles etc. (iv) Capital goods including machinery and transport equipment iron and steel.

Annual average exports of a few principal commodities are given in Table II

As is evident from the Tables, the exports have not only gone up but are also well spread over a number of commodities. Among the important items, exports of cotton manufactures went up from 136 US $million in 1960-61 to 8550 US $ million in 2016-17. Exports of tea reached a high of Rs. 731 US $ million in 2016-17. Exports of Jute manufactures which were at the level of Rs. 283 US $ million in 1960-61 increased to Rs. 321 US $ million in 2016-17. Among other important items, which showed improvement, are engineering goods, fish and fish preparations.

Imports :

Although continuing efforts have been made at import substitution after the independence, the quantum and value of imports into the country have been rising over the years. Indian imports can be broadly classified in three categories-capital goods, raw materials and consumer goods. Under the category of capital goods are included machinery of all kinds, metals and transport equipments. The raw material includes raw cotton and waste, raw jute, dye stuffs and chemicals, fertilizer and minerals oils. The consumer goods category includes electric goods and apparatus, drugs and medicines, textiles paper and paperboard and food-grains.

The pattern of imports has undergone a change during the period 1960-61 to 2016-17. The share of capital goods imports which was 31.7 percent of total imports during 1960-61 was 25.3 percent during 2016-17.

The share of raw materials which stood at 47.0 percent of the total imports in 1960-61 increased to 77.8 percent during 1980-81. However, share of food grains have fallen from 19.1 percent to 5.6 percent in 2016-17. This has been made possible only due to increasing food grains production in the country. Structure of Indian imports during different plan periods has been shown in Table III.

Table III

Share of Indian Imports

(Percent)

		1960-61	1990-91	2016-17
(a)	Capital Goods	31.7	24.2	25.3
(b)	Raw Material	47.0	N.A.	N.A.
(c)	Consumer goods (mainly foods grains)	19.1	3.2	5.6 (Food and live animals for food only)

Source : Misra and Puri : Indian Economy (2018 ed.)

The trend of imports in selected commodities is given in Table IV

Table IV

Principal Imports of Commodities **US $ million**

		1960-61	1980-81	1990-91	2016-17
1.	Food grains	449	481	N.A.	N.A.
2.	Electrical and Non-Electrical Machinery	546	1705	3312	27497
3.	Non-ferrous Metals	99	604	614	39226
4.	Chemical elements and compounds	82	453	1276	21974
5.	Fertilizers	27	1034	984	5024

Source : Misra and Puri : Indian Economy (2018 ed.)

Direction of India's Foreign Trade

Imports

Over the years, U.S.A. has been the largest supplier, mainly because of import of food grains and other items under aid and grants. But due to decline in imports of foodgrains and other items under aid by India, U.S.A. was relegated to the second position in 1972-73. But again from 1973-74, it regained its position. There was also an appreciable increase in imports from U.S.S.R., Japan, Belgium; West Germany, Italy and Saudi Arabia during this period. In 1990-91, the largest (single country) share was again held by U.S.A. with Germany at the second place.

In 2002-03, as in 1990-91, less developed countries held the highest source of India's imports while USA was the largest single country - source of imports.

Exports

U.K. and U.S.A. continued to be India's principal buyers until 1968-69. Since 1969-70 U.S.S.R. and Japan are also among the principal buyers. During 1968-69, the share of U.K. and U.S.A. in India's exports was 14.8 and 17.2 percent respectively. But in 1976-77 they accounted for 10.2 and 1.0 percent respectively. However, in

1976-77 U.S.A. was the largest buyer with a share of 11.2 percent in the total exports followed by Japan (10.9 percent), U.K. (10.2 percent) U.S.S.R (8.8 percent). Other important buyers were France, West Germany, Italy, Netherlands, Bangladesh, Singapore, Poland, Switzerland, Iraq, Egypt, Indonesia and Iran. In 1989-90 U.S.A. and U.S.S.R continue to be the largest buyers followed by Japan, Germany and U.K. The situation remains the same in 1992-93, with Germany coming up at second place with little variation from Japan. In 2001-02, exports to OECD countries declined due to decline in exports to USA, Japan, Canada, UK, Germany and France. Highest percentage of India's export in 1990-91 was Russia while in 2002-03 it was USA. (barring less developed countries.)

Taking an overall view, it can be stated that India developed a more spatially dispersed pattern of foreign trade by 1980s. Although it was excessively dependent on North America and Western Europe initially, this dependence gradually declined during 1951-52 to 1969-70. However, with the disintegration of Soviet Union, its dependence on Western Europe and North America again increased sharply. Together, they accounted for nearly 30 percent of our exports and around 17 percent of our imports in 2013-14.

The major changes in the direction of India's foreign trade are :

(i) Exports to OECD countries declined from 66.1 percent to 37.9 percent during 1960-61 to 2016-17. Imports from these countries declined from 78.0 percent to 28.1 percent in the same years.

(ii) India's trade with developing countries of Asia, Africa and Latin America shows an upward trend. Imports from these countries also rose. Share of these countries in imports rose from 11.8 percent to 43.2 percent during 1960-61 to 2016-17.

(iii) USA occupies second place now among individual countries. But UK is not an eminent partner now.

(iv) Among the OPEC countries, UAE is most important followed by Indonesia and Saudi Arabia.

(v) The percentage shares of both exports and imports to/from Japan and Switzerland declined in 2016-17 as compared to 1960-61.

Foreign Trade Policy:

The trade policy has always played an important role in the development of countries. Whereas a country's industrial policy effects the nature and pace of its industrial development, the trade policy which restricts imports and provided market to domestic producer, has a far reaching effect on industries. In the context of backwardness of a country in respect of matters like buyers, export finance, export entrepreneurship etc. the Govt. can play a vital role in filling these gaps. The trade policy should make efforts at imparting consistency to the foreign exchange budgets that is, balancing all the outgoing with all the incoming as per the availability of foreign exchange and needs of the economy. With a view to making the Indian economy self reliant, a sound trade policy aiming at the economic development of the country was adopted in the post independence period. The broad aims for India's trade policy were (i) to restrict imports to essential items, (ii) to promote import substitutions, (iii) to promote export oriented industries, (iv) increase export creating surpluses.

India's foreign trade policy for 1981-82 was announced in April 1981. The basic framework of the trade policy was maintained in recognition of the need for continuity and stability of the policy for promoting sustained economic growth. The process of selected liberalisation of imports was carried a step further in an effort to stimulate vigorous export drive and strengthen the production base of the economy, while providing adequate safeguards to ensure legitimate protection to indigenous industries.

The policy gave more facilities for export production and pay special attention to small industries and handicrafts. To encourage the setting up of small scale units, even banned items were allowed to be imported by them, provided these were essential for starting the unit and the value did not exceed 10 percent of the total value of the license.

Out of their foreign exchange savings, Indians returning from abroad who wanted to set up industries in India were allowed to import goods upto Rs. 25 lakhs without indigenous clearance.

Export policy announced on April 1, 1991, aimed at a substantial increase in exports and therefore, liberalized the existing policy excepting a few essential commodities of mass consumption, exports of which had previously been banned. It allowed the export of any item required for the execution of projects abroad. In the essential commodities category, the ban on exports was extended to khandsari, jaggery, wheat products, uncrushed bones, and vintage cars. Gifts of silver articles was also prohibited in the view of the need for conserving silver.

All efforts were made to promote exports. The measures adopted were finance for export assistance, concessions and incentives to exporters, facilities of transport, market research, supply of raw materials and imports of inputs in export industries etc.

The trade policy however encompassed a large variety of instruments like the custom duties, quotas, foreign exchange control, export incentives, state tradings etc. The public sector is playing a key role in the development of India's trade.

In the new economic policy Government of India announced a series of policy changes aimed at liberalisation of economy in general and trade policy in particular. This included devaluation of rupee, abolition of import subsidy, introduction of REP (foreign exchange entitlement given to exporters of the extent of 30 percent of exports made earnings) scheme and sharp reduction in custom duties on imports. Restrictions on the import of foreign capital were abolished. The purpose of the new trade policy was to boost Indian exports by making them more, competitive through price reduction (via devaluation) and modernisation of our export industries with greater collaboration of foreign firms.

Policy measures announced in the Union Budget 2002-03 included a comprehensive package for development of Special Economic Zones, further decontrol and deregulation of agricultural sector to encourage higher exports of farm products, reduction in peak customs duty from 35% to 30% etc.

The foreign trade policy (2004-09) was built around two major objectives: of doubling India's share of global merchandise trade by 2009 and using trade policy as a instrument of economic growth with a thrust on generation of employment.

The policy identified agriculture, handlooms and handicrafts, gems and jewellery and leather and footwear sectors as the thrust areas having prospects for export expansion and potential for employment generation. However the foreign trade policy emphasized expansion of exports only, but remained oblivious of the trend of imports.

The increased levels of trade deficit since 2011-12 led to severe stress in the external sector. The government took various measures including those aimed at boosting the performance of the exports sector. Various schemes were strengthened, and industry and trade bodies are being given support for participation in buyer seller meets, trade fairs and exhibitions in various countries under the Market Access Initiative (MAI) scheme and Market Development Assistance (MDA) scheme.

The new five year Foreign Trade Policy (FTP) 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in keeping with the 'Make in India' vision. It seeks to make trade a major contribution to the country's economic growth and development. FTP 2015-20 introduces two new schemes, namely 'Merchandise Exports from India Scheme' (MEIS) for export of specified goods to specified markets, and 'Services Exports from India Scheme (SEIS) for increasing exports of notified services. These replace the earlier 5 schemes for rewarding merchandise exports with different kinds of duty scrips with varying conditions attached to their use.

Questions for Pratice

1. Discuss the direction of India's Foreign trade.
2. Write a note on Foreign Trade Policy.
3. Give the changes in composition of foreign trade.

Suggested Readings

(Given at the end of this unit)

LESSON NO. 2.3

BALANCE OF PAYMENTS

Unfavourable balance of payments is a serious problem of India. Before an extensive study of this problem is undertaken it will be better to know the meaning of balance of payments.

Meaning :

The balance of payments of any country is a comprehensive and systematic account of all the economic transactions between the residents of a country and the rest of the world during a particular period of time. The balance of payments maintains detailed classified records of different types of receipts against exports of goods, services and all the capital received by its residents on the one hand and also of all the payments made by the residents against imports of goods and services received along with the capital transferred to non-residents and foreigners, on the other hand.

Balance of payments, is thus, much wider than the balance of trade, which refers to only exports and imports of merchandise(goods).

The balance of payments (BOPs) is classified into :

(i) Current account

(ii) Capital account

The current account includes : visible exports and imports; invisible items relating to receipts and payments for various services like banking, insurance, shipping, travel etc. and other unilateral transfer of payments like donations, grants, taxes etc.

The capital account of balance of payments include all the current economic transaction for the country's international financial position resulting in changes in the foreign financial assets and liabilities. The capital transaction includes both private, banking and official transactions.

Trends in Balance of Payments :

India's balance of payments turned unfavourable in the post independence era. During World War II India's balance of payments remained favourable. During war time, India exported large quantity of goods to allied nations and imported very small quantity of good from them. England owed India sterling equivalent to Rs. 1733 crore. But in the post partition period, India's imports far exceeded its exports. India's balance of payments is studied in the following parts :

(1) Pre-planning period : This period ranges from 1947 to 1951. Deficit of India's balance of payments on current account during this period was of the order of

Rs. 240 crore. The main causes of this deficit were pressure of pent-up demand on account of World War 11 and import of jute, cotton and food-grains in the wake of partition. In 1949, rupee was devalued but the situation did not improve. With the breaking out of war in Korea in 1950 balance of payments became favourable.

(2) First Plan (1951-56) : During this plan period, deficit of balance of payments on current account was only Rs. 42 Crore, In the plan due to excessive imports, the deficit was to the tune of Rs. 163 crore but subsequently with increase in production of food grains balance of payments turned favourable. Thus, the total deficit during the plan period was reduced to Rs. 42 crore.

(3) Second Plan (1956-61) : During this plan, balance of payments deficit rose to Rs. 1725 crore. It was on account of heavy imports of machines, raw materials and food-grains. However, the deficit in the balance of trade was Rs. 2339 crores.

(4) Third Plan (1961-65) : During this plan, balance of payments deficit increased to Rs. 1941 crore. It was mainly due to shortage of food grains and large import of military equipments in the wake of Indo-China and Indo-Pakistan war.

(5) Three Annual Plans (1966-69) : During this period deficit of balance of payments on current account rose to Rs. 2,015 crore. It was mainly due to heavy imports of food grains on account of famine conditions in the country. Interest payments on foreign loans were also made in this period.

(6) Fourth Plan (1969-74) : Balance of payments during this plan was favourable to the extent of Rs. 100 crore. It was for the first time since independence that balance of payments had become favourable. Many factors accounted for it. For instance (1) Rise in exports and fall in imports reduced very much the adverse balance of trade (2) Considerable rise in receipts from invisible items. In 1973-74, India, received a sum of Rs. 1, 654 crore from USA under P.L. 480 scheme. As a result of it, net receipts from abroad went up.

(7) Fifth plan (1974-78) : During the four years of the Fifth Plan, gains of balance of payments rose to Rs. 3082 crores. The factors contributing to the favourable balance of payments positions were (i) Reduction in the deficit of balance of trade due to rise in exports and retractions on imports. In 1976-77 balance of trade was favourable. (ii) Restrictions on smuggling, more tourists visiting India, remittances from Indians residing abroad, all these led to more rise in receipts from invisible items than payments thereof. Consequently, India's balance of payments turned favourable.

(8) Sixth Plan (1980-85) : In the sixth plan period, balance of payments once again turned unfavourable. The deficit amounted to Rs. 11, 384 crores. Average deficit was Rs. 2, 277 crore per annum.

(9) Seventh Plan (1985-90): Deficit of balance of payments on current account was Rs. 38, 313 crore in the Seventh Plan period. It was mainly due to fall in invisible receipts from abroad. In the wake of Gulf War, prices of petrol went up very high, which adversely affected balance of trade and balance of payments.

(10) Eighth Plan Onwards : The Eighth Plan was to commence in 1990. But it was launched in 1992. In two years of pre-eighth plan period , i.e. in 1990-91 and 1991-92, there was considerable increase in the deficit of balance of payments on current account. In 1990-91 the current account deficit was Rs. 17,368 crore. Foreign Exchange Reserves were reduced to the level of Rs. 4,388 crore. This situation is known as the stage of Foreign Exchange Crisis. In 1991-92 the deficit on current account declined to Rs.2,237 crores. In the first years of Eighth Plan i.e. 1992-93, the current account deficit increased to Rs. 12,74 crore. In 1993-94 the current account deficit declined to Rs. 3,636 crore only. This decline was due to 30 percent increase in export while imports increased by 15 percent only. In 1994-95 the current account deficit increased to Rs. 10,583 crore. This increase was due to increase in import by 23% while exports increased by 18% only. In 1995-96 the deficit on balance of payment account increased to Rs. 19,697 crore. The main reason of this increase in the deficit was 36% growth in imports as compared to 28.6% growth in exports.

The balance of payments in each plan is shown in table below :

Table India's Current Account Balance of Payment

Period	**Balance of Payment (Rs. Crore)**
First Plan (195 1-56)	- 42
Second Plan (1956-61)	- 1,725
Third Plan (1961-66)	- 1,941
Three Annual Plans (1966-69)	- 2, 015
Fourth Plan (1969-74)	+ 100 (favourable)
Fifth Plan (1974-78)	+ 3,082 (favourable)
Sixth Plan (1980-85)	- 11,384
Seventh Plan (1985-90)	- 41,047
Eighth Plan (1992-97)	- 62914
Ninth Plan (1997-02)	- 70670
2002-03	+ 30660
2003-04	+ 63983
2010-11	-210100
2014-15	-26859
2016-17	-15296] in US $ million

Source : *Economic Survey, Datt and Sundharam Indian Economy*

The above table reveals the following main **Characteristics** of balance of payments

(1) Before the Fourth Plan, balance of payments on current account remained adverse. Unfavourable balance of payments in First Plan was Rs. 42 crore. In the three, annual plans it rose to Rs. 2015 crore.

(2) In the Fourth plan, for the first time since independence, balance of payments became favourable. Surplus of balance of payments rose to Rs. 100 crore. In the fifth plan also balance of payments was favourable to the tune of Rs. 3082 cr. It was mainly due to large receipts from abroad under invisible items.

(3) In the Sixth Plan, deficit of balance of payments aggregated to Rs. 11,384 cr. Annual average deficit during the plan was Rs. 2,277 cr. Increasing deficit of balance of trade and sharp fall in the receipts of "Invisible" mainly account for it.

(4) In the seventh Plan, deficit of balance of payments rose to Rs. 38,313 cr. Average annual deficit was Rs. 7,662 Cr. during the plan period. In the plan period, exports were 5.2 percent and imports were 8.3 percent of gross domestic production as against 3.13 percent of gross domestic production as against 3.33 percent in the Sixth Plan. However, in the Seventh Plan, receipts form "net invisible" amounted to 0.75 percent of gross domestic product as against 1.9 percent in the Sixth Plan. As a result of it, deficit of balance of payments on current account rose from 1.43 percent to 2.38 percent of gross domestic product.

(5) Deficit of balance of payments on current account rose very high in 1990-91. It amounted to 3.7 percent of GDP. Main causes of deficit were abnormal rise in the price of petrol due to Gulf war and sharp decline in receipts from abroad on account of invisible items. it led to heavy fall in foreign exchange reserves which were reduced to Rs. 4,388 crore. Deficit of balance of payments on current account in 1991-92 was Rs. 2,237 crore.

(6) Eighth Plan In the first year (1992-93) of the eighth plan the current account deficit increased to Rs. 12, 764 crore but in 1993-94 it declined to 3,636 crore. In 1994-95, it in increased to Rs. 19,607 crore. It was 1.7% of Gross Domestic Product. There were several reasons of this rise in deficit :

(i) Imports of capital goods increased by 34% (ii) There were 22% increase in the imports essential raw materials required for the production of export goods. (iii) There was 27% increase in the imports of petrol and (iv) There was much increase in the imports due to the expectation of a decline in the exchange rate of the rupee. In 1996-97 it came down to Rs. 13,242 crore.

India's BOPs remained comfortable in 1998-99, through 2000-01. There were pressures on account of international oil prices, but mobilization of funds under the India Millenium Deposits helped to revert the declining trend in reserves and brought a turn around in the BOPs situation.

The years 2007-08 and 2008-09 were marked by adverse developments in the external sector of the economy, mainly because of the global financial crisis. After the global financial crisis in 2008, India, like the rest of emerging economies, faced shocks. The situation worsened with low external demand and increased domestic demand with heavy dependence on oil imports. The policy measures adopted by the government in 2013-14 led to an improvement in the BOPs position.

Causes of Unfavourable Balance of Payments:

Main causes of unfavourable balance of payments of India are as follows :

(1) Import of Machinery : Since independence, import of machines has increased on two scores (i) During World Was II, machines in Indian industries overworked. Consequently there was large-scale depreciation and wear and tear of machines. In order to replace the same, large quantity of new machines was imported (ii) Industrialisation of the country in the wake of Five Year Plans also necessitated import of machines worth millions of rupees. This turned India's balance of payments unfavourable.

(2) Import of war equipments : In order to defend itself against hostile China and Pakistan, large amount of war equipments were imported by India. These imports also caused disequilibrium in the balance of payments.

(3) More Demand of Consumption Goods : In the Post-war period demand not only for foreign goods but also for Indian goods went up. Previously, large amount of oilseeds, tea, iron ore etc. used to be exported out of India. Now their demand within the country has gone up. No wonder export of these goods has gone down very much.

(4) Price Disequilibrium : According to Fiscal Commissions Report since 1945 there has been a good deal of difference in the domestic prices of the goods and the prices of goods on foreign trade list. After World War II, inflation has increased very much. On account of rise in prices of food-grain prices of other goods also increased. This led to increase in imports and decrease in exports.

(5) Embassies : Independent India had to establish its political relation with other countries. To that end, it had to set up its embassies in foreign countries, It was an expensive affair. It also turned balance of payments unfavourable.

(6) Foreign Competition : India mainly exports jute, tea and textiles, but now foreign competition in the these goods in growing. Bangladesh is India's rival in jute exports and Sri Lanka and Indonesia in the export of tea and Korea and China in the export of cloth. This has also adversely affected our exports.

(7) Increase in the Price of Petrol : Value of imports has gone up on account of constant hike in the price of petrol and petroleum products. In 1973 price of petrol was 2 dollars per barrel. It has now gone up to 36 dollars. This has led to unprecedented rise in the price of petrol. In 1970-71, petrol worth Rs. 136 crore was imported. In 1980-8 1, value of imported petrol rose to Rs. 5,264 crore and in 1996-97 the import price of petrol further rose to Rs. 35, 737 crore. Of the export earnings, 30 percent are spent on petrol. Price of petrol and petroleum products rose very high in 1991 on account of Gulf War.

(8) Payments of Interest of Foreign Debt : Foreign loans contracted by the government amounted to approximately Rs. 56,001 crore till 1997. Interest on these loans and repayments of the loan in 1996-97 approximated Rs. 4, 746 crore. it also caused disequilibrium in the balance of payments.

(9) Less Growth of Exports : As against imports, till 1976 exports have increased less. It has also aggravated disequilibrium in balance of payments. It was in equilibrium during Forth plans but in the sixth plan it again became unfavourable. In the Seventh Plan, exports aggregated Rs. 86,934 Cr. and imports Rs. 1,25,649 Cr. Trade deficit thus was of the tune of Rs. 38,715 Cr. Gap between exports and imports has further widened. It was Rs. 7,735 Cr. in 1989-90 and Rs. 10,665 Cr. in 1990-91. It reduced to Rs. 3,809 Cr. in 1991-92. However, in 1992-93 it rose to Rs. 9,687 Cr. but in 1994-95 it declined to Rs. 7,297 Cr. In 1995-96 the difference in the value of imports and exports increased by Rs. 16,325 crore and in 1996-97 it further increased to Rs. 19,319 crore. This also resulted in adverse balance of payments.

(10) Gulf War : In 1991, Gulf War (war between Iraq and several western countries) had also its adverse affect on India's balance of payments. On the one hand, price of petrol shot up and on the other, foreign remittances by Indians working in gulf area, viz. Kuwait, Iraq, etc. to India altogether stopped. It rendered the imports expensive and foreign remittances stopped.

(11) Disintegration of U.S.S.R. : India had large amount of foreign trade with U.S.S.R. The disintegration of U.S.S.R. had an adverse affect on India's foreign trade.

Besides, there are some minor factors also accounting for adverse balance of payments, viz, poor quality and high prices of Indian goods, malpractices of Indian traders causing impediments in exports, bad effects on exports of high cost of production, payment of large amount of interest on foreign loans in foreign currency after independence.

Measures to Correct disequilibrium in the Balance of Payments :

The main factor accounting for disequilibrium in balance of payments is the excess of imports over exports. Two measures are therefore called for to correct this disequilibrium. Exports should be promoted and imports discouraged. Import substitution should be resorted to. Following specific measures are suggested to correct disequilibrium in the balance of payments.

(1) Promotion of Exports : Promotion of exports is the best measure to correct an adverse balance of payments. To achieve this end, all taxes on export goods be withdrawn, export industries should be provided raw materials and transport facilities at reduced costs, so that prices of these goods remain low. These industries should be provided banking and credit facilities. To promote exports, intensive publicity of Indian goods be undertaken in foreign markets and goods be tailored to the tastes of the foreign consumer.

(2) Increase in Production : To cut down imports and encourage exports, it is essential that agricultural, industrial and mineral production be increased. Jute manufacturers, tea and coffee are of great importance among exports from India. Efforts have been made to increase the production of all the three products in Five year Plan. Their production need to be further increased. Recently, several new items have entered the export list viz. machines, electrical fans, cycles, ready made garments, hosiery goods, handicrafts, gems and jewellery etc. Raw materials should be made available to export industries at international prices. Production capacity of cement, fertilizers, iron and steel, sugar etc. should be utilized fully.

(3) Trade Agreements : Government of India enters into trade agreements with the governments of other countries in order to expand trade. Many foreign trade delegates visit India to strengthen trade ties. India has negotiated trade agreements with many countries, viz. Bangladesh, Bulgaria, Germany, Egypt, France, Czechoslovakia, Korea, Iran, Iraq, etc. On 15th April, 1994 India signed GATT along with 125 other countries of the world. Accordingly, as per the provisions of GATT, India entered into trade agreements with all other countries signing GATT, automatically.

(4) Encouragement to Foreign Investment : Foreign industries and multinational corporations (MNCs) are encouraged to invest their capital in India. Special facilities are provided to attract foreign capital. It increases production of export goods and thus exports are encouraged. However, care should be taken that foreign capitalists do not dominate our economy.

(5) Attraction to Foreign Tourists : Attractive tourist-spots should be developed in different parts of the country to attract foreign tourists. Government spends a lot of money to develop such spots. Besides, foreign tourists be provided with transport and other facilities. Large amount of foreign exchange can be earned from foreign tourists.

(6) Devaluation of Indian Currency : Lowering of the value of domestic currency in terms of another currency is called devaluation. A country resorts to devaluation when its exports fall short of imports. As a result of devaluation imports become dear and exports cheap. India devalued its rupee for the first time in 1949. Indian rupee was devalued for the second time on 6 June, 1966. This time, rupee was devalued to the extent or 35.5 percent. In terms of gold, the value of rupee fell to 0.11849 grains or 13.3 cents. In July, 1991, rupee was devalued for the third time to the extent of 20 percent.

(7) Deflation : It means that prices of the goods produced in the country should be brought down. As a result of it, foreigners will get export goods at cheaper price. Thus exports will be encouraged. To achieve this objective, government contracts credit and money supply, raises the rate of interest and encourages people to save more and makes efforts to curtail consumption. Moreover, by imposing more of direct taxes, people's disposable income is brought down. Reduction in disposable income has two effects. Firstly, demand for domestic goods goes down. Secondly, demand for imports also goes down. Consequently, more domestic products are released for exports and imports are reduced. The deflation helps correct disequilibrium in the balance of payments.

(8) Restriction on Imports : Another important method of correcting balance of payments is restriction on imports. Following measures can be adopted to cut down imports (i) Restrictions on the imports of luxury goods (ii) Production within the country of goods imported from foreign countries (iii) Issue of licenses for the import of essential goods (iv) Fixation of quotas for the import of different goods (v) Levying of new import duties and enhancing of the rates of old duties (vi) Rousing of national sentiments for the adoption of goods produced within the country (vii) Less credit facilities for imported goods, etc.

(9) Import Substitution : Import substitutions play an important role to correct an adverse balance of payments situation. Import substitution means total or partial replacement of an imported product of the same function requirement mainly from indigenous material and know-how. Its main objective is to reduce imports. For instance, prior to independence, cycles, sewing machines, electrical fans etc. used to be imported from abroad. Now the same are being produced in the country. Similarly, in place of copper wire imported for power industry, aluminum wire produced in the country is being increasingly used.

In short, disequilibrium in the balance of payment can be corrected by increasing exports, reducing imports. Government of India has taken several measures to promote exports and popularize import substitution.

Report of Rangarajan Committee on Balance of Payments :

Government of India had appointed a committee on balance of payments under the chairmanship of C. Rangarajan, the then Governor, Reserve Bank of India. The committee submitted its final report in April 1993. The committee made the following recommendations with regard to the different aspects of balance of payments of India:

(1) Unification of Exchange Rate : The committed had recommended that to achieve a realistic position of the rate of exchange, the same should be unified for all purposes. It will be a significant step towards full convertibility. Accepting this recommendation, on 1st March, 1993, government introduced *Unified Exchange Rate System.*

(2) Target of Foreign Exchange Reserve : Rangarajan Committee had also recommended that keeping in view the imports and the external payments, governments should anticipate its requirement of foreign exchange quarterly and accordingly determine targets of foreign exchange reserve.

(3) Option of Converting Gold into Foreign Currency : The committee also recommended that the option given by the Reserve Bank of India to convert gold into foreign currency should be constantly reviewed. It also recommended that to meet emergent expenses at short notice some part of gold be kept handy to be converted into foreign exchange.

(4) External Assistance : The committee recommended that hundred percent of external assistantce be disbursed among the states for all sectors.

(5) Commercial Borrowing : The committee recommended the commercial borrowings for a period of less than five years should be encouraged. Public guarantee for foreign loans be given after due consideration. The committee had suggested that annual limit for disbursement of foreign commercial borrowing be fixed at 250 crore dollars. The committee had also concluded that there was no option in India for debt equity conversion with regard to debt management. The committee had recommended that gold bonds could be issued on trial basis. In the budget for 1993-94 government has issued gold bonds.

(6) Convertibility of Non-Rresident Indian Borrowing : With a view to reducing the cost and convertibility of nonresident Indian borrowings, the committee had recommended that the minimum maturity period of Foreign Currency Non-Resident Deposits should be one year. The difference between international interest rate and interest rate on Foreign Currency Non-Resident Deposit (FCNRD) should gradually be reduced. The committee was in favour of developing market for Non-Resident Indian bonds in order to encourage medium term investments.

(7) Short Term Loan Policy : The Committee was of the opinion that short term foreign loans be allowed for trade purpose only. Such loans be subject to a monitoring system so that the outstanding amount at any given time be ascertained.

(8) National Investment Law : With a view to encouraging foreign investment, the committee was in favour of National Investment Law so as to give a legal shape to the existing policy and convention relation to outflow of dividends, foreign disinvestment and employment to foreign nationals.

(9) Medium Term Policy : The committee was of the view that a medium term target of minimum 15 percent annual increase in exports in term of dollars be achieved. Besides, the committee held that the current account deficit to the tune of 1.6 percent of gross domestic product can be maintained by an appropriate level of net capital receipts.

Questions for Practice

1. Differentiate between Balance of Trade and Balance of Payment.
2. What are the causes of disequilibruim in India's Balance of Payment.

Suggested Readings

(Given at the end of this unit)

LESSON NO. 2.4 **AUTHOR : DR. MANISHA SHARMA**

INDIAN PLANNING : OBJECTIVES AND ACHIEVEMENTS

2.4.1 Introduction

The process of planning is a backward and forward process. The Perspective-Plans and Five Year Plans are prepared by the Planning Commission on the basis of projections. These plans are coordinated through national, regional and sectoral plans. Each plan proposes a perspective framework covering fifteen or twenty years. Physical targets are worked out for the economy based on the availability of both physical and human resources .The preparation of a Five-Year Plan is usually spread over a period of two or three years. Each Five-Year Plan provides for a scheme of investment and for basic policies and institutional changes which are designed to achieve certain major policy aims. In proposing these aims an attempt is made to take into account the progress of the economy over the past and the objectives to be realised in the course of the next fifteen years.

2.4.2 Objectives of lesson

In this lesson we will study planning, need of planning, procedure of plan formulation, objectives of planning, critical evaluation of planning.

2.4.3 Procedure of Plan Formulation.

The formulation of a Five-Year Plan is attempted in various stages. The first stage is the preparation of the approach paper. It involves an examination of the State economy, an appraisal of the past trends in production and rate of growth in relation to the long-term view of the economy. It is prepared by the different divisions of the Planning Commission in consultation with the State Governments and different departments of the Central Government. Preliminary conclusions on the plan and related matters are submitted by the Commission to the Central Cabinet and then to the National Development Council. Only on the approval by the Council, the Commission prepares the draft plan on the recommendations and modifications suggested by the Council and on the approval of the draft plan by the Cabinet, it is circulated widely for country wide debate.

The second stage consists of studies which are intended to lead to consideration of the physical content of the plan, *i.e.,* Draft plan. While these studies proceed, the Planning Commission constitutes groups for each sector composed of its own specialists and those of ministries and non-official experts which review the situation in their respective fields and formulate assumptions to be made in the preparation of plan and indicate targets to be achieved.

Thus, in the formulation of each Five-Year Plan, a few crucial parameters like population, national income, investment, employment, etc. are arrived at within the Planning Commission based on a feasible analysis and probable movements of different forces.

During the implementation and completion of each Plan, the different divisions of Planning Commission analyse the development in nation with the targets and try to rectify the leakages in the next Plan.

2.4.4 Objectives of Indian Plans

On January 26, 1950, the Constitution of the Republic of India came into force. In March, 1950, the Planning Commission was set up by the Government of India under the chairmanship of Jawahar Lal Nehru to prepare a plan. In July, 1951 the Planning Commission issued the draft outline of the First Five Year Plan and the same was presented to the Parliament in December, 1952.

The First Five Year Plan (1951-52 to 1955-56)

The First Plan had the following objectives:

(i) To bring the rehabilitation of the Indian economy which was disrupted because of the World War II and the partition of the country;

(ii) To help solve the food problem and bring about improvement in the supply of industrial raw materials like raw cotton and jute;

(iii) To check inflationary pressures in the economy;

(iv) To complete irrigational and hydro-electric projects to renovate the depreciated stock of railways;

(v) To lay firm foundations of further economic progress in the subsequent Five Year Plans;

(vi) To indicate measures of social justice in consonance with the Directive Principles of the Indian Constitution; and

(vii) To build the administrative structure and other organizations necessary to carry out various programmes of economic development.

The total proposed outlay was Rs. 3,870 crores. The public sector outlay was Rs. 2,356 crores while the expenditure was Rs. 1960 crores only. The private sector had an investment of Rs. 1800 crores.

The First Plan was a success owing to an escalation in agricultural production. Food production increased by 20 percent. Although the target for national income growth was only 11 percent, the actual increase was 18 percent. Per capita income grew by 11 percent and per capita consumption by 9 percent. Index of industrial production went up to 139 resulting in an annual growth rate of 8 percent. Prices came down by 13 percent.

The Second Five Year Plan (1956-57 to 1960-61)

The Second Plan had the following objectives:

(i) To bring about an increase in national income by 5 percent per year;

(ii) To bring about a large expansion in employment opportunities by about 10 to 12 million jobs during the period of 5 years;

(iii) To bring about rapid industrialisation of the country with special emphasis on the development of heavy and basic industries;

(iv) To move in the direction of establishing a socialist pattern of society through reduction of inequalities of income and wealth and more equitable distribution of economic power.

The actual outlay of Second Plan was Rs. 4672 crores (as against the original provision of Rs. 4800 crores). The private sector had an investment of Rs. 3100 crores.

The plan had made considerable progress in every branch of national life. The investment programmes were directed more towards creating capacity than accelerating the immediate production. The actual increase in national income was

19.5 percent only against a target of 25 percent. A spectacular achievement of the plan was the remarkable expansion of iron and steel industry. The Second Plan could not achieve the expected results because of low agricultural production due to failure of monsoon rains.

The Third Five Year Plan (1961-62 to 1965-66)

The objectives of the Third Plan were:

i. To secure an increase in national income of 5 percent per annum.

ii. To achieve self-sufficiency in foodgrains and increase in agricultural production to meet the requirement of industry and export.

iii. To expand basic industries like steel, chemical industries, fuel and power and establish machine-building capacity so that requirements of further industrialisation can be met with in a period of ten years or so mainly from the country's own resources.

iv. To utilise to the fullest possible extent man power resources of the country and to ensure a substantial expansion in employment opportunities; and

v. To establish a progressively greater equality of opportunities and to bring about reduction in disparities of income and wealth and more even distribution of economic power. The financial outlay in the public sector was targeted at Rs. 7500 crores. In view of the sharp increase of prices, the actual expenditure in public sector rose to Rs. 8577 crores. The investment by the private sector was Rs. 4190 crores.

The plan was a failure in many ways. The plan target was met only in transport, communication and social services sectors. There was a fall in agricultural production from 82 million tonnes to 72 million tonnes. The national income at 1960-61 prices declined by 5.7 percent in the last year of the plan. The growth rate of 5 percent in national income could not be achieved. A target of 14 percent industrial production rose by only 5.7 percent per annum.

The Annual Plans (1966-67 to 1968-69)

Due to various shortfalls, Government delayed Fourth Plan and implemented Annual Plans for three years. The period 1966-69 is called 'Plan Holiday'. The aggregate outlay over the three year period of these annual plans was Rs. 6,628 crores.

The Fourth Five Year Plan (1969-70 to 1973-74)

The objectives of the Fourth Plan were:

(i) To achieve stability and progress towards self-reliance;

(ii) To attain the growth rate of 5.7 percent per annum;

(iii) To achieve social and economic justice;

(iv) Creation of more employment opportunities and guaranteeing the national minimum;

(v) Balanced regional development;

(vi) Refashioning of economic institutions.

A total outlay of Rs. 24,880 crore was provided. Of this, the public sector outlay amounted to Rs. 15,902 crore while the investment in the private sector was anticipated to be Rs. 8,978 crore. The actual public expenditure was 16,160 crore.

National income increased by only 3.3 percent as against the target of 5.5 percent. Foodgrains registered an average growth of only 2.7 percent. On the industrial front, against the target of 6.8 percent, real growth rate was only 4.2 percent. Absence of a general price stability, Bangladesh developments, Indo-Pakistan war in 1971 and abnormal drought in 1972 virtually robbed the Fourth Plan of the boost that it was expected to give to the economy.

The Fifth Five Year Plan (1974-75 to 1978-79)

The Fifth Plan had the following objectives:

(i) To attain an annual growth rate of 5.5 percent in the Gross Domestic Product;

(ii) To bring about expansion in productive employment;

(iii) To successfully implement a 'National Programme of Minimum Needs' by providing facilities for elementary education, drinking water, medical facilities, house-sites, rural electrification, slum improvement, etc. to the landless agricultural workers, tribals and such other poorest sections of the community;

(iv) To bring about expansion of social welfare programmes;

(v) To lay greater emphasis on adequate development of agriculture, key and basic industries and industries producing consumption goods;

(vi) To adopt a programme of adequate public procurement and public distribution system for an assured supply of essential consumption goods at reasonable prices, at least to the poorer sections of society;

(vii) To bring about vigorous promotion of exports and import substitution;

(viii) To establish an equitable price-wage-income balance; and

(ix) To adopt institutional, fiscal and various other measures for reduction of economic, social and regional inequality. The Fifth Plan envisaged a total outlay of Rs. 69,300 crore. The plan provided for a total public sector outlay of Rs. 42,300 crore. The outlay of private sector was put at Rs. 27,000 crore. In real terms, the Fifth Plan expenditure was Rs. 40,712 crore for the Government sector. The Fifth Plan period was reduced by a year. Thus, the Fifth Plan covered the period 1974 to 1978. The average growth rate during 1974-78 was only 3.9 percent as against the targeted 4.4 percent. During the period of 1974-78 prices increased by 34.5 percent while the consumer price index rose by 35.2 percent. The biggest failure of the Fifth Plan was its inability to make a dent in unemployment. Thus, the poor continued to remain where they were.

The Sixth Five Year Plan (1980-81 to 1984-85)

While the draft Sixth Plan was presented in 1978, the plan was terminated with the change of Government in January, 1980. The new Sixth Plan came into effect in April, 1980. The objectives of the Sixth Plan were:

(i) To bring about a significant rise in the rate of growth of the economy promoting efficiency in the use of resources and improved productivity;

(ii) To bring about modernisation for achieving economic and technological self-reliance;

(iii) To bring about progressive reduction in the incidence of poverty and unemployment;

(iv) To bring about speedy development of indigenous sources of energy;

(v) To bring about improvement in the quality of life of people through a minimum needs programme;

(vi) To strengthen the redistributive system with a view to bring about a reduction in inequalities in income and wealth;

(vii) To bring about a progressive reduction in regional inequalities;

(viii) To promote policies for controlling the growth of population;

(ix) To bring about harmony between short-term and long-term goals of development by prompting the protection and improvement of ecological and environmental assets; and

(x) To take steps to promote the active investment of all sections of the community in the process of development through appropriate education, communication and institutions.

The Sixth Plan envisaged a total outlay of Rs. 1,72,210 crore, out of which Rs. 97,500 crore were in the public sector and Rs. 74,710 crore in the private sector. Under the Sixth Plan actual public sector expenditure was Rs. 11,0821 crore at 1979-80 prices.

The national income grew by 5.4 percent per annum by exceeding the estimated rate of 5.2 percent growth per annum. The encouraging growth rate was contributed by all the sectors, such as agriculture, industry, and services. However, the poor performance of the manufacturing and mining sectors nearly offset the good performance of agricultural and service sectors. What was overlooked was the plan's failure to reduce poverty and unemployment. Broadly, however, the Sixth Plan can be considered a success.

The Seventh Five Year Plan (1985-86 to 1989-90)

The objectives of seventh plan were:

(i) To increase national income by 5 percent per annum;

(ii) To increase agricultural production at an average annual rate of 4 percent;

(iii) To increase industrial growth by 8.3 percent per annum;

(iv) To lower capital output ratio by increasing productivity of capital and capacity utilisation;

(v) To promote self-reliance;

(vi) To promote exports to making the problem of balance of payments more manageable;

(vii) To implement the programmes of poverty alleviation;

(viii) To bring down growth rate of population;

(ix) To control inflationary pressures in the economy. The plan envisaged an aggregate outlay of Rs. 3,48,148 crore out of which Rs. 1,80,000 crore were in the public sector and Rs. 1,68,148 crore in the private sector. The actual Government expenditure was Rs. 2,25,004 crore.

Many of the targets set in the Seventh Plan were exceeded partly. The average annual growth rate of GDP was 5.8 percent, which exceeded the estimated rate of 5 percent. Average annual growth rate of the industrial sector was marginally lower at 8.5 percent than the estimated growth rate of 8.7 percent. Agricultural production showed an annual average growth rate of 3.8 percent against the estimated 4 percent.

The Eighth Five Year Plan (1992-93 to 1996-97)

The Seventh Plan completed its term on March 31, 1990. Due to political uncertainties, the Eighth Plan was delayed by two years and commenced only on April 1, 1992. The intervening two years were years of Plan Holiday with an outlay of Rs. 1,42,377 crore in public sector.

The objectives of the Eighth Plan were:

(i) Generation of adequate employment to achieve near full employment level by the turn of the century;

(ii) Containment of population growth through active people’s cooperation and an effective scheme of incentives and disincentives;

(iii) Universalisation of elementary education and complete eradication of illiteracy among the people in the age group of 15 to 35 years;

(iv) Provision of safe drinking water and primary health care facilities including immunisation, accessible to all the villages and the entire population and complete elimination of scavenging;

(v) Growth and diversification of agriculture to achieve self-sufficiency in food and generate surplus for exports;

(vi) Strengthening the infrastructure in order to support the growth process on a sustainable basis. The Eighth Plan provides for a total outlay of Rs. 7,98,000 crores. The public sector outlay has been placed at Rs. 4,34,100 crores-Rs. 3,61,000 crores as investment component. The private sector outlay is Rs. 3,63,900 crores.

The Eighth Plan aimed at a growth rate of 5.6 percent per annum, but the annual growth rate was 6.5 percent. Much of this growth performance reflected the successive good performance of the agricultural sector, which has averaged a growth rate of about 3.5 percent over the plan period as compared to the target of 3.1 percent. The average industrial growth rate during the Eighth plan period was 7.2 percent, being marginally lower than the plan target of 7.4.percent per annum. Both exports and imports grew significantly in the Eighth Plan. The average export growth was 13.5 percent and growth rate of imports was 14.5 percent. The foreign exchange reserves of the country gradually increased from about US dollars 1 billion in 1991-92 to almost US dollars 26 billion at the end of the Eighth Plan. The Central government's fiscal deficit as a proportion of GDP declined significantly from 8.4 percent in 1990-91 to 5 percent in 1996-97. The Eighth Plan of thus witnessed reasonably good performance as revealed by the macro-economic indicators of the economy.

The Ninth Five Year Plan (1996-97 to 2001-02)

An approach paper of the Ninth plan was presented to the National Development Council in January, 1997 and the Draft Plan was released on March 1, 1998 and approved by the NDC in February, 1999. The objectives of the ninth plan were:

(i) Priority to agriculture and rural development with a view of generating adequate productive employment and eradication of poverty;

(ii) Accelerating the growth rate of the economy with stable prices;

(iii) Ensuring food and nutritional security for all, particularly the vulnerable sectors of the society;

(iv) Providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter and connectivity to all in a time bound manner;

(v) Containing the growth rate of population;

(vi) Ensuring environmental sustainability of the development process through social mobilisation and participation of people at all levels;

(vii) Empowerment of women and socially disadvantaged groups such as scheduled castes, scheduled tribes and other backward classes and minorities as agents of socio-economic change and development;

(viii) Promoting and developing people's participatory institutions like Panchayati Raj, cooperatives and self-help groups;

(ix) Strengthening efforts to build self-reliance.

All these objectives were intended to achieve 'growth with equity' and these were to be reflected in four dimensions of State policy:

(i) Quality of life of the citizens

(ii) Generation of productive employment

(iii) Regional balance, and

(iv) Self-reliance.

As per the commission's estimates the total investment during the Ninth Plan was Rs. 21,70,000 crores at 1996-97 prices. Total public sector plan outlay was around Rs. 8,59,200 crores out of which investment in the public sector wasRs. 7,26,000 crores. The outlay was 35.7 percent more than the Eighth Plan.

The Tenth Five Year Plan (2002-2007)

The Tenth FYP was prepared against a backdrop of high expectations, as GDP growth had improved in the eighth and ninth FYP to an average of about 6.1 percent, making India one of the ten fastest growing developing countries. The Approach Paper to the Tenth Plan proposed that the plan should aim at an indicative target of 8 percent GDP growth for 2002-07. Recognising the fact that development objectives should be defined not only in terms of GDP growth but also enhancement of human well being, the plan set targets for :

* reduction of poverty ratio by 5 percentage points by 2007.
* universal access to primary education.
* reduction in decadal rate of population growth, infant mortality and maternal mortality,
* access to potable drinking water to all villages,
* increase in forest and tree cover.

To achieve these objectives, public sector plan required mobilisation of Rs. 1592300 crores - an increase of 67.4 percent over the Ninth Plan realisation of resources.

Eleventh Five Year Plan 2007-2012 :

The Eleventh Plan envisaged a high growth of GDP of the order of 9 percent. However, the target was not just faster growth, but also inclusive growth to ensure improvement in the quality of life of people, especially poor SCs/STs, OBCs and the minorities. The vision of the plan included -

* rapid growth that reduces poverty and creates employment opportunities;
* access to health services and education for the poor;
* environmental sustainability;
* reduction of gender inequality;
* improvement of governance;
* empowerment through education and skill development.

The eleventh plan outlay was to be 120 percent higher than the tenth plan realization. Total public sector outlay in the eleventh plan was estimated at Rs. 3644718 crores.

Twelfth Five Year Plan (2012-17)

The broad vision of the Twelfth Plan is reflected in the subtitle of the Plan itself, i.e. Faster, Sustainable and More Inclusive Growth. The target for GDP growth in the Plan has been kept at 8 percent per annum. Within this aggregate growth target, emphasis has been laid on two sub-targets for inclusiveness :

(i) growth rate of 4 percent for agricultural sector

(ii) around 10 percent growth rate in the last two years of the plan for the manufacturing sector.

The Plan identifies 25 core indicators to reflecdt the vision of rapid, sustainable and more inclusive growth. Besides the above mentioned growth targets, the plan aims at generating 50 million new work opportunities in the non-farm sector, increase investment in infrastructure to 9 percent of GDP, provide access to banking services to 90 percent households, increase mean years of schooling to seven years, reduce total fertility rate to 2.1, and infant mortality rate to 25 per 1000 births.

The plan could not complete its tenure due to the formation of NITI Aayog in 2015, to replace the Planning Commission.

2.4.5 Critical Evaluation of Indian Planning

(a) Achievements of the Planning

1. **Growth in national income and per capita income:** An important objective of planning was to increase output of all goods and services, *i.e.,* to increase national income. As a direct result of planning, India's national income and per capita income went up. While the growth rate in national income was modest around 4 percent per year, the growth rate in per capita income was quite unsatisfactory, less than 2 percent per year. This lower rate was due to the high growth rate of population.

2. **Progress in agriculture:** As a result of plan expenditure of 22 percent on agriculture and irrigation, agricultural production increased considerably. The area and product of all the crops had more than doubled or even trebled. Since 1966 the main emphasis has been on the introduction of new technology for raising the agricultural productivity. This work was first undertaken under Intensive Agricultural Area Programme. This **was** followed by the HYV programme.

3. **Progress in Industry:** More impressive than the growth of agriculture has been the increase in the field of industry. The growth of steel, aluminium, engineering goods, chemicals, fertilizers and petroleum products is especially important. With the growth of these industries, many other industries were started. A variety of capital goods and consumer goods are being produced in both large and small scale units. The annual rate of growth has been quite impressive-as high as 14 percent in the case of aluminium, and 8 to 10 percent in many other capital goods and engineering goods. The growth rate was rather low, in the case of cloth 3 percent. India has now attained self-sufficiency in

all consumer goods. India can now set up and manage all industries from Indian capital goods and with very little of imports of capital goods. The development of productive capacity has also been marked in the area of energy sources. India became the tenth most industrialised country in the world.

4. **Growth of Public Sector:** The public sector in this country with all its limitations reached the commanding heights and thus contributed a lot to economic growth. At the time of independence its size was quite small. During the planning period approximately 45 percent of the total investments have been made in the public sector.

5. **Development of Infrastructure:** Means of transport and communication, irrigation facilities and energy sources broadly constitute the infrastructure of a country. A high priority has been accorded to the development of infrastructure under the various plans in India. Though the targets laid down under the plans for the development of the infrastructure invariably remained unrealised, yet it has to be admitted that the country would not have reached the present level of infrastructural development in the absence of economic planning.

6. **Increase in Consumption of People:** The per capita consumption of cereals, edible oils and vanaspati, fish, beverages and cloth increased considerably during the plan periods.

7. **Progress in the Field of Science and Technology:** Significant progress has been achieved in the field of science and technology. The progress has been so fast and so great that India is now counted as the third largest country in the field of science and technology.

8. **Progress in Health and Education:** Rise in life expectancy of the Indian people has been witnessed during the plan period. Whereas the average life expectancy of an Indian was about 32 years in 1951, it has become more than 65 years now. This is largely the result of elimination of epidemics and providing medical facilities. There is development of educational system. India today has a very wide base of skilled workers to draw upon due to educational facilities available.

9. **Increase in employment and reduction in poverty:** Poverty in India has been reduced and employment increased.

10. **Achievement of self-sufficiency:** Self-sufficiency in food has been achieved and India is now in a position to export foodgrains. India is now planning to do away with foreign aid gradually by increasing exports.

(b) Failures of Planning in India

1. **Failure to Abolish Poverty:** The growth of per capita income has been very low. The impact of the plan on reduction of poverty was only marginal. Though

the percentage of people living below poverty line had come down, there is still more than 26 percent under poverty line. With the rapid growth of population and growing inequality of income and wealth the abolition of poverty appears to be a distant dream. 'Garibi Hatao' has remained a mere slogan.

2. **Failure in Providing Employment:** Unemployment is on the increase despite planning programmes. The number of unemployed persons was over 5 million at the end of the First Plan and now it is 23.3 millions in 2011-12. As well our plans are growth oriented and not employment oriented. India's unemployment situation is becoming worse with every passing year.

3. **Failure in the reduction of inequalities of income and wealth:** During the last five decades of planned economic development, inequalities of income have increased, redistribution of income in favour of the less privileged classes has not taken place. The rich are clearly becoming richer. There is growing of income and wealth in the hands of the propertied classes. In the agricultural sector, 3 percent of the households own nearly half of the agricultural land, while 75 percent of households just own only 10 percent of land. In the field of industry, a few large industrial and business houses are controlling over the industrial economy. Speculative gains, black marketing, smuggling and other illegal incomes and corruption generated by licence and quota systems have made the upper income group terribly rich. The fruits of economic progress instead of being shared by the masses flow into the pockets of the traders, businessmen and industrialists.

4. **Failure of Land Reforms:** The decision to fix ceiling on land holdings and transfer surplus land to small peasantry has not been properly implemented. The rich and middle farmers have become very powerful by using all the benefits that Government has provided them, under the plans—as for example, the irrigation facilities, the improved seeds, the subsidised fertilizers, etc.

5. **Failure in reducing the regional disparities:** Many areas of country remain backward and regional disparities in agricultural and industrial development have increased. Many segments of population like the scheduled castes and scheduled tribes have not shared fully in the benefits of growth.

6. **Failure in providing universal primary education:** We are still far from attaining the goal of universal primary education. The remarkable expansion of higher education, apart from being at the cost of quality, has led to a high degree of wastage and a growing unemployment of graduates.

7. **Failure to control the increase in population:** A rapidly increasing population is dragging down the rate of economic progress in India. Whatever economic progress has been achieved, it has been eroded by the additional population.

The economy has to provide additional food, clothing, etc. to 16 to 17 million people every year.

8. **Failure to maintain stable prices:** The general price line has been rising continuously. The general price level went up at an annual average rate that varied between 5 and 6 percent.

9. **Failure in proper implementation of plans:** The slow progress in the country is partly due to defective planning and faulty implementation of the schemes of economic development. India's plans have been quite ambitious proposing to achieve a large number of targets in a short period of time. The basic defect of planning in India is its poor implementation.

10. **Failure in infrastructural facilities:** Planners have not been able to devise a set of infrastructural facilities for the rapid economic growth.

2.4.6 Suggestions to Revitalise Economic Planning.

1 Indian planning, first of all, must aim at bridging the widening rural-urban dichotomy and increasing differences between the consumerist life style of affluent minority and the poor majority. The strategy for achieving this must include not only a universalised basic needs programme but also equal opportunities in education and in income generating activities, unhampered either by hereditary or environmental constraints.

2. Emphasis in target fixing should shift from financial targets to physical targets. Moreover, a proper link between financial targets and physical targets need be projected in each plan.

3. The targets should deal not only with the GDP or NDP and size of plan outlays but also with the distribution of the expected additions to the NDP among the people.

4. The Planning Commission should spell out details of the investment it proposed for the plan period by sub-magnitudes and in terms of both outlays and expected results in addition to output or equipment.

5. It is necessary to give high priority in investment outlay for maximising the efficiency of existing equipment, full utilisation of unutilised capacity, and completion of projects which have works in progress.

6. Decentralisation and participation are two areas which play a special role in securing efficiency in implementation.

7. We should give priority to an integrated, nationally extended comprehensive programme for human resource development.

8. The best possible opportunities and facilities should be extended for promotion and employment of science and technology as essential inputs of economic development.
9. A high priority need be given to a population policy that would effectively bring down the growth rate of our population.
10. Involvement of the public participation in the successful implementation of plans should be achieved to attain the plan targets.
11. The Government should rely on eminent academicians in plan preparation instead of administrative bureaucrats.

2.4.7 Conclusion

In the formulation of each Five-Year Plan, a few crucial parameters like population, national income, investment, employment, etc. are arrived at within the Planning Commission based on a feasible analysis and probable movements of different forces. During the implementation and completion of each Plan, the different divisions of Planning Commission analyse the development in nation with the targets and try to rectify the leakages in the next Plan.

2.4.8 Short answer type questions

1. Define planning.
2. What is the procedure of plan formulation?
3. What are the achievements of planning in India?
4. What are the failures of planning in India?

2.4.9 Long answer type questions

1. Discuss the objectives of Indian plans.
2. Critically evaluate Indian planning.

2.4.10 Recommended books

Gaurav Datt and Ashwani Mahajan	:	Datt and Sundharam Indian Economy (latest edition)
P.K. Dhar	:	Indian Economy (latest edition)
Mishra and Puri	:	Indian Economy (latest edition)
A. N. Aggarwal	:	Indian Economy (latest edition)

LESSON NO. 2.5 **AUTHOR: DR. RAKESH KUMAR**

STRATEGY OF INDIAN PLANNING

Structure:

1. Objectives:

Following are the objectives of this lesson:

- to know about the basic elements of development strategy
- to learn the Nehru-Mahalnobis strategy and the economic philosophy behind
- to discern the diversion from the basic strategy developed by Nehru-Mahalnobis and move towards Gandhian model of development
- to understand the Manmohanomics and LPG

- to know about the Neo-Gandhian approach to development-PURA

2. Introduction:

Every development plan requires an approach to achieve certain long term objectives. India, after the independence, followed the path of planned economic development. Being an underdeveloped country and further devastated by the partition of the country did not have much resource at its disposal, thus, development works could not be started in all areas of economic activities. In this context, leading sectors have to be identified and priorities have to be determined and resources have to be devoted to these sectors. Therefore, some strategy has to be adopted to achieve the best for the nation by using the scarce resources judiciously. This has been well established in the literature of development that priority areas should be identified and the available meager resources be devoted to these areas. Diffusion of resources in many areas may turn out to be of little positive consequences. Rosenstein Rodan has asserted in his formulation that if an economy stagnated for the long time, it would not grow unless a 'big push' is given to it. The Indian economy needed exactly this kind of 'push' after 1947. Hence, economic planning was advocated which involved higher level of investments and determination of right priorities.

The basic objectives of our Five Year Plans were "development along socialist lines to secure rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of values and attitudes of free and equal society. In order to achieve these objectives the planners have formulated a strategy of planned economic development. In the history of planning in India, eleventh plan (2007-12) is already complete and the twelveth plan, 2012-17 functioned till 2015, when the Planning Commission was replaced by NITI Aayog. Did we witness any major change in the strategy of planning overtime? If yes, what are changing paradigms? An attempt has been made in this lesson to address these questions.

3. Strategy of Economic planning:

3.1 Nehru-Mahalanobis Strategy of Development-Based on Rapid Industrialization:

The economy was in doldrums on the eve of independence, and running short of food supply and basic infrastructure required for development. The first five year plan was based on the Harrod-Domer model of development-based on two way functioning of investments in terms of multiplier and acceleration principles. Major emphasis was placed to solve the problem of food grains and resources were devoted to agriculture and infrastructure with particular emphasis on energy, means of transport and communication and irrigation facilities. However, this strategy did not continue for the rest of the plans as the supply of food grains was assured under the PL-480 and 660 from the USA. Second five year plan onwards were based on the Nehru-Mahalanobis model of growth. This strategy emphasized investments in heavy industry to achieve industrialization which was assumed to be a basic condition for rapid economic development. At that time Nehru was very forthright in pointing out that industrialization meant development of heavy industries. The plan frame of the second plan states that in the long run, the rate of industrialization and the growth of the national economy would depend upon the increasing production of coal, electricity, iron and steel, heavy chemicals and heavy industries generally which would increase the capacity for capital formation. One important aim was to make India independent as quickly as possible of foreign imports of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supply of essential producer goods from other countries. The heavy industry must, therefore, be expanded with all possible support. Thus the core of the strategy adopted by Indian planners for the second plan and with minor modification for subsequent three plans (up to the fifth plan)-was rapid industrialization through lumpy investment on heavy, basic and machine- building industries.

The experience of different countries have shown that unless a country develops iron and steel, heavy engineering, machine tools and heavy chemical industries, it would fail to accelerate the pace of economic development. 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 simultaneously. Hence, growth of consumer goods industries and agriculture was left to the market forces.

The planners have defended the priority for industrialization on the grounds that on the eve of independence the country was industrially backward and as such the establishment of new industries on big scale and development of traditional industry was an imperative necessity. India is a labour abundant country; its productivity in the primary sector is very less whereas the industrial sector has large potential so far as the productivity of labour is concerned. Hence, for raising national income at fast rate there is no way out except to establish industries. Development of basic and heavy industry has very large forward and backward linkages, consequently provide big boost to the other sectors of the economy. In addition development of industry provides better scope for exports and earning foreign exchange for the further development of the nation.

Planning Commission rejected the alternative strategy of light industries producing consumption goods. This approach would have produced large quantity of consumer goods to the satisfaction of the elite and the capital goods sector had lagged behind. Therefore, Planning Commission rejected the short period availability of consumption goods in favour of production of capital goods. The capital goods approach based on Russian experience expected people to sacrifice in the short period in favour of high standard of living in the long period. Besides, this approach would enable the country to have a large volume of capital goods in the short period and a large volume of both capital and consumption goods in the long period.

This strategy was commended for the increase in the levels of savings and investments in the country, for, the impressive development of economic infrastructure especially irrigation, energy, transport and communication etc. However, development strategy was severely criticized for its inadequate emphasis on small and cottage industry and agriculture, for the growing emergence of trade deficit, for growing unemployment in the country and above all, for growing inequality of income and wealth on the one side and very slow reduction of poverty on the other.

3.2 Nehru- Mahalanobis Strategy of Development- Employment Considerations:

This strategy of development of basic and heavy industry came in conflict with employment objective of plans. The strategy had visualized that the full employment would be attained by realizing the 5% 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 labour force available 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. Here the basic defect in the approach was that this aspect of strategy was not translated in terms of actual projects or project complexes and the expectation did not materialize.

3.3 Nehru- Mahalanobis Strategy -Small Scale Industry and Consumer Goods:

This strategy did not entirely ignore the small scale industry by recognizing the fact that the greater the market surplus of consumer goods in the household and small industries, the greater will be the possibilities of investments in heavy industries without any fear of inflation. For, the growing population has to be fed and clothed, the large scale industry with long gestation period was unable to meet such demands. Hence this strategy gave active encouragement to small scale industries producing consumer goods. It was asserted that the input- output ratio would be low in small scale and cottage industries and gestation period very short and obviously, the small scale sector was ideally suited to increase the supply of consumer goods.

3.4 Nehru-Mahalanobis Strategy -Import Substitution led industrialization:

Next basic tenet of the strategy was to develop industrialization through the process of import substitution based on the infant industry argument by creating high walls of tariffs. Consequently, it helped India -an underdeveloped nation in building up the industrial base. India's demand for industrial imports increased much more rapidly than the foreign demand for its exports. The inability of exports to increase rapidly was due to the inability of primary goods exports to expand at a fast rate. Therefore to meet domestic demand of industrial products, India must set up import substituting industries. However, this type of policy has also been criticized. Raul Prebish is of the view that firstly, when the relatively easy phase of import substitution is reached, there are limits to import substitution in the developing country like India. Secondly, such a policy leads to product distortation because such import substituting industries that are set are not according to the requirements of the long term needs of the nation rather production of those goods which the country like India is unable to acquire from other nations. Thirdly, import substitution strategy forces to go for excessive protectionism. This insulates national markets from external competition, weakening and even destroying the necessity for improving the quality of output under the private-enterprise system. India is a major sufferer on this front. Fourthly, the quality unnecessarily depending upon such policy increases the cost of production for the economy as a whole. Finally, protectionist policies have promoted the industries which are capital intensive, employ a relatively smaller labour force, and tend to accentuate the income disparities.

3.5 Nehru- Mahalanobis Strategy of Development -Public Sector:

This strategy assigned a dominant role to the public sector. Investments in the basic and heavy industry was very high and gestation period very long and that too with low profitability. The private sector was too small to bear such burden of heavy industry and was not keen on providing infrastructural facilities. Besides, the control of public sector would vest the control of the commanding heights with the government and this would help the development of a socialist society. Above all, the public sector would prevent the development of the monopoly ownership and exploitation which are inherent in the private sector. It was for these reasons; this strategy went for in a big way for the expansion of public sector.

(A) Self-Check Exercise :

Answer the following questions in five-six lines :

(i) What is Nehru- Mahalanobis Strategy of Development?

(ii) How has this strategy helped to build a structure for further industrialisation?

4. The Gandhian Socialism- Janata Party Regime 1977:

The Nehru-Mahalanobis strategy which was based on the long term objectives to satisfy, opted for heavy industry with the domination of the public sector and followed the protectionist path to safeguard the infant industries and to boost savings and the investments. However, it failed to provide national minimum level of living despite first five plans. Nearly 40% of the population lived below the poverty line. The number of unemployed and under- employed was quite high and was increasing continuously. The inequalities of income and wealth had worsened and there was growing concentration of economic power in the hands of few. Land reforms were not properly implemented, resulting in much dissatisfaction in the rural areas. It was in this context that the Janata Party in 1977 adopted Gandhian Socialism as the main objective of development and the Janata Party's sixth plan (1978-83) was broadly based on the Gandhian Model of economic growth.

The basic objective of the Gandhian model was to raise the material as well as the cultural level of the Indian masses so as to provide a basic standard of life. It laid the greatest emphasis on the scientific development of agriculture and rapid growth of cottage and villages.

4.1 Contents of the Gandhian Model of Growth:

- Development in agriculture for the self sufficiency in foodstuffs which can be achieved by the better quality of inputs and through land reforms. Abolition of money lenders' money lending system and increase the credit facilities to the farmers. This model lays special emphasis on dairy farming as an occupation and as an auxiliary to agriculture.
- Attain maximum sufficiency in village communities. Hence the model emphasizes the expansion of the cottage and village industries along with agriculture. Spinning, weaving and manufacturing of khadi are given the first place.
- There is a general misconception about Gandhi being opposed to the development of large-scale industries. Actually, the Gandhian Plan recognizes the need for and the importance of certain selected basic and key industries in India, especially defence, hydro-electric, thermal-electric, mining and metallurgy, machinery and machine tools, heavy engineering and heavy chemicals. Gandhiji welcomes machinery and modern amenities wherever they lighten the burden of the villagers without displacing the human labour. Machinery is good when it operates in the interests of all; it is evil when it serves the interests of the few.
- This plan laid emphasis on small scale industries to replace production oriented planning with employment oriented planning. This necessitates demarcation of areas of high employment potential which also ensure high and efficient production.
- The problem of distribution is to be tackled at the production end and not at the consumption end. In decentralization of small scale production it was expected that this will cut the very root of accumulation of wealth. And whatever large-scale production is inevitable, it should be left to government ownership and management.

Hence, we can say that the Gandhian model of growth hopes to achieve a national minimum level of living within the shortest possible time and aims at removal of concentration of income and wealth and tends towards growth with stability.

(B) Self-Check Exercise :

Answer the following short Questions.

(i) What was the idea behind Gandhian Strategy of development.

(ii) Enlist any three contents of Gandian Strategy of development.

5. Basic Needs Strategy:

5.1 Early Phase of Liberalization (1980-85):

When Janata party lost power to the Congress (I) in 1980, the fifth five year plan 1978-83 was terminated and the sixth five year plan 1980-85 was adopted. In deciding the growth path the planners highlighted the role of the public sector that it had played in the past. They asserted that the public sector investments would continue to play an important role in influencing the growth performance of the economy in the future. Nonetheless the share of the public sector investment in the total investment was reduced. Even the investment pattern in the sixth plan was not in the conformity with the Nehru-Mahalanobis Strategy. The early phase of liberalization had started in the Indian planned economic development. The plan gave a high priority to energy as its inadequate availability posed a serious threat to the whole planning activity in the country, the heavy industries were denied the priority they deserved. Another dimension in the development of the sixth plan that deserved 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.

The sixth plan document stated that 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 alternative development profiles. Keeping in view the experience of the past, it was asserted that for realizing these objectives a substantial acceleration in the overall growth rate of the economy was necessary. At the same time the failure of trickle down effects was admitted. Therefore, various redistributive measures were advocated for raising the share of poorer sections in the national income consumption. The commission particularly emphasized the need for incorporating specific action programmes like the IRDP, NREP and as such their anti-poverty schemes in the strategy which aimed at removal of poverty and unemployment.

5.2 Agricultural Development Led Growth-(1985-90):

The seventh plan spelt out that the planning activity had to be directed toward the elimination of poverty and creating conditions of near full employment, the basic needs of the people in terms of food, clothing and shelter, attainment of universal education and access to health facilities for all. In this context the seventh plan gave priority to increase agriculture production through more reliance on the new technology. It undermined the role of public sector and induced increasing privatization of industrial activity. Besides, the liberalization of imports aimed at raising efficiency in the manufacturing sector. And emphasis was shifted from regulatory to facilitatory procedures.

It was expected from the agriculture led growth that the strong domestic linkages of agriculture with industry through both demand and inputs sides results in high domestic demand multipliers for agricultural output. In addition this has been recognized in the economic literature that an investment in agriculture is less import intensive than in industry. Further, investment in agriculture has greater employment potential than that in industry. However, Irma Adelman has admitted that if these policy measures are not counteracted by large increase in output of wage goods will result in drastic drop in the agricultural terms of trade and transfer all the benefits of agriculture led industrialization to the urban industrial classes domestically. Thus, such policy requires supporting policies to partially counteract the internal terms of trade consequences of these policies.

6. Manmohan's Economics-Strategy based on Liberalization, Privatization and Globalization (1991):

This strategy of development emphasized on Liberalization, Privatization and Globalization (LPG). It was a diversion from the policies hitherto adopted. Here the process of indicative plan has been strengthened and the role of market has been enlarged. The economy was exposed to the international competition. The emphasis was placed on the productivity, efficiency and technology. The export led growth model was replaced by the import led growth. Specific elements of this strategy are discussed in the following paragraphs.

6.1 Elements of LPG Strategy :

- The areas hitherto reserved for the public sector were opened to private sector. In addition, by permitting the private sector to set up industrial units without taking a license, the government removed certain shackles which were holding back or delaying the process of private investment.
- The government decided to liberalize the policies towards the foreign capital and the economy was integrated to the world economy by reducing the tariffs and other restrictions.
- The public sector role, which was dominant in the earlier strategies, was reduced dramatically. Chronically sick public sector enterprises were referred to the BIFR for the formulation of the revival /rehabilitation schemes. To improve the performance of public sector enterprises, greater autonomy was given to PSU management and the Boards of Public sector companies were made more professional.
- The business houses were allowed to undertake investments without any MRTP limit.

Hence, the new strategy aims at reducing the role of the state significantly and thus abandons planning fundamentalism in favour of a more liberal and market driven pattern of development.

6.2 Evaluation of LPG Strategy : By adopting this strategy the nation became an open economy, integrated with world economy. The impression was being given that this will lead to competitiveness, technological advancement and increase in efficiency and productivity. However, this policy has been criticized on many grounds;

- It largely concentrates on the corporate sector which account for a little proportion of GDP.
- The model ignores agriculture and agro- based industries which are major sources of generation of employment for masses.
- By permitting the MNCs in the consumer goods sector, the interests of the small sector have been largely ignored.
- The benefits of rising exports are more than offset by much greater rise in imports leading to a larger trade gap.
- The model emphasized on the capital intensive pattern of development and there are serious apprehensions about its employment-potential.
- Japan did not follow the open door policies and liberalization to develop their economy. It applied limited operation of market mechanism with the state playing an active role in guiding the economy for the welfare of the community. So ours may not be the compulsion.
- China's decision to globalize is motivated by the desire to use foreign markets as an instrument to resolve numerous internal bottlenecks.

This strategy raised serious doubts in the minds of people whether we are following the correct path of development. What has been happening to poverty and inequality? The experience of more than a decade does not provide conclusive evidence of substantial improvement of these parameters. Rather some of them have become worse.

(C) Self-Check Exercise :

Answer the following questions on the basis of above discussion.

(i) How will you define the LPG Strategy of development?

(ii) What type of development strategy was adopted during 1980-85?

(iii) Bring out basic elements of LPG strategy.

7. PURA Model-A Neo- Gandhian approach to Development:

Providing Urban Amenities in Rural Areas (PURA) is to propel economic development without population transfers. Instead of moving human beings where infrastructure exists, it is better to take infrastructure to villages where human beings live. The PURA concept is the response to the need for creating social and economic infrastructure which can create a conducive climate for investment by the private sector to invest in rural areas.

7.1 Features of PURA Model :

(a) PURA model involves four connectivities: physical, electronic, knowledge and economic connectivity to enhance the prosperity of cluster of villages in the rural areas.

- Under physical connectivity, a group of 15 to 25 villages will be linked to one another by road along with a ring road so that each one of them can use it. Besides roads, provision of electricity and transport facilities has also been included.
- Secondly, a digital connectivity which aims to link villages with modern telecommunication and information technology services, for instance, PCOs, cyber cafes etc.
- Thirdly, knowledge connectivity tries to establish on every 5 to 7 kms of the circular road a school, a higher education centre, a hospital.
- Fourthly, economic connectivity aims to establish within this group of villages good marketing facilities so that all the commodities and services of daily use can be procured and the rural people can sell their produce in these markets.

(b) Depending upon the region and the state of development, PURA can be classified into three different categories, namely Type A, Type B and Type C-PURA clusters. Type A is situated closer to the urban area having minimal road connectivity, limited infrastructure, limited support-school, and primary health centre. Type-B is situated near the urban areas with sparsely spread infrastructure and no connectivity. Type-C located far interior with no infrastructure, no connectivity and no basic amenities.

(c) The union government accorded in principle approval for the execution of PURA for bridging the rural-urban divide and achieving balanced socio-economic development in 2004.The government envisaged development of 4000 rural clusters located in backward regions. A sum of Rs. 3 crores for each cluster has been provided and thus, Rs 12000 crores will be spent on the development of 4000 PURAs.

(d) PURA draws its inspiration from the Gandhian model of development which emphasizes rural development as a fundamental postulate, yet in the prescription, it is neo-Gandhian in the sense, that it intends to bring rural regeneration with the objective of taking modern technology and modern amenities to the rural areas. It emphasizes the enlargement of employment of employment as the sole objective to make use of rural manpower in various development activities. In this sense, it does not think of a second grade status for rural citizens and can become more acceptable to them. In other words, the PURA model attempts reconciliation between employment and GDP growth objectives.

8. Summing Up:

It can be stated that during the first four decades the Nehru-Mahalnobis strategy of growth dominated the entire scene with some diversion during the Janata Party regime in 1977. Economic circumstances emerged in the due course ultimately led the government to opt for the strategy based on liberalization, globalization, and privatization.

9. Practice Questions:

9.1 Long Answer type questions :

(i) Critically discuss the basic strategy of Indian development planning.

(ii) Nehru-Mahalanobis strategy helped to create the basic and heavy industry in India, in this context develop a logical reasoning.

(iii) What is Gandhian model of development? Discuss its contents and implementation in India.

(iv) What was unfavourable in the Nehru-Mahalanobis strategy that compelled the government to diverge from this strategy?

(v) Discuss the Strategy of import-led industrialization vs export- led industrialization from the Indian experience.

9.2 Short answer type questions:

Write short notes on the following:

(a) Basic strategy of development in India during 80's.

(b) Heavy versus light industry

(c) Gandhian model of development

(d) PURA

(e) Clustering approach in PURA

(f) Manmohanomics

(g) Agriculture led industrial development

(h) Growth and employment

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LESSON NO. 2.6

POPULATION GROWTH IN INDIA

1. Size and Growth Rate of Population

Table 1 indicates the size and growth rate of population since 1891. The period under review can be classified into three sub-periods. Period I (1891-1921) : Period II (1921-1951) and Period III (1961-onwards).

Table 1 : Size and Growth of Population in India

Census year	Population (Crores)	Increase	Percentage increase
1891	23.59	—	—
1901	23.55	–0.4	–0.2
1911	25.2	+1.6	+5.7
1921	25.1	–0.1	–0.3
1931	27.9	+2.8	+11.0
1941	31.9	+4.0	+14.2
1951	36.1	+4.2	+13.3
1961	43.9	+7.8	+21.5
1971	54.8	+10.8	+24.8
1981	68.4	+13.6	+24.8
1991	84.4	+16.1	+23.5
2001	102.7	+18.7	+21.3
2011	121.0	118.1	17.64

Period I (1891 to 1951) - The period of negligible population growth

During the 30 years period (1891-1921), the population of India grew from 23.6 crores to 25.1 crores i.e. an absolute increase of 1.5 crores. The compound growth rate of population was merely 0.2 percent per annum which was negligible. The main factor responsible for this rate thus held the population growth in check.

Period II (1921 to 1951) – The period of declining death rate and moderate population growth.

The control of epidemics like plague, cholera, small pox, kalazar etc. which were responsible for a high death rate, resulted in a decline in death rate. This was, however, not accompanied by a proportionate decline in birth rate. As a consequence, the population of India increas from 25.1 crores to 36.1 crores – an increase of 11crores during the period. The compound growth rate of population works out to be 1.22 percent per annum.

Period III (1951 to 1981) - The period of high growth of population

After the attainment of independence, the measure taken by the national government for health improvement and medical care resulted in a further decline of death rate. As against it, the birth rate declined at a much smaller rate. Consequently, the population of India jumped from 36.1 crores in 1952 to 68.4 crores in 1981 – an increase of 32.3 crores during the 30 years period. The average (compound) rate of growth of population was of the order of 21.5 percent per annum – nearly double the growth rate in the previous period. This is referred to as the period of "POPULATION EXPLOSION" in India. Whereas birth rate came down to a level of 33 per thousand in 1979, death rate reached a very low figure in 1979. This resulted in a phenomenal increase of population during the period.

Table 2 : Growth rate of Population in India

Period	**Compound annual growth rate of population**
1891-1921	0.19
1921-1951	1.22
1951-1981	2.15
1981-1991	2.11
1991-2001	1.93
2001-2011	1.64

Causes for the growth of population

Increase of population is primarily affected by two factors viz. Birth rate and Death rate. Table 3 gives the trend of birth and death rates. The data reveals that both death and birth rates were high before 1921. As a result, the survival rate was very low. In this period, due to lack of development of the means of transport and communication, food supplies could not be moved to famine affected areas and thus a large number of people died of starvation resulting from famines. Several epidemics like cholera, plague, small pox, kalazaar, typhoid and several other fevers were also responsible for high death rate. Moreover, the poor development of irrigation facilities made agriculture dependent on the monsoons and led to the frequent occurrence of famines.

Table 3 : Average annual birth and death rates in India

Decade	Birth rate per 1000	Death rate per 1000
1891-1900	5.8	44.4
1901-1910	48.1	42.6
1911-1920	49.2	48.6
1921-1930	46.4	36.3
1931-1940	45.2	31.2
1941-1950	39.9	27.4
1951-1960	40.4	18.0
1961-1970	41.0	18.9
1971-1980	37.2	15.0
1981-1990	33.9	12.6
1991-2001	25.8	8.5
2010-11	22.8	7.2
2016	20.4	6.4

It was only after 1921 that death rate began to decline and the fall in death rate became more marked in the period of 1941-50. Death rate fell from about 49 per thousand in 1920 to a level of 27.4 per thousand in 1950. This was mainly-due to two factors : First, with improvement in the means of transport and communications, food could be easily transported to famine hit areas and this reduced death rate due to starvation. Secondly, with better medical care, epidemics like plague, cholera, small pox etc. were controlled and this resulted in a decline in the incidence of malaria, typhoid etc. also helped to reduce death rate. The sharp fall in death rate was controlled by a relatively small fall in birth rate from a level of 49 thousand in 1920 to about 40 per thousand in 1950.

In the period after 1950, the trend of a decline in death rate was further strengthened and it declined to a very small figure of about 13 per thousand in 1979. As against it, birth rate fell to 33 per thousand in 1979. This resulted in further widening the gap between birth and death rate. This was due to the establishment of responsible national government after independence. The vast expansion of health and medical facilities helped to control diseases and epidemics further. The discovery of wonder medicines and their availability to the people saved lives further. The decline in infant morality rate among women of reproductive ages, control of epidemics and diseases, prevention of food famines, all combined to reduce death rate.

2. Density of Population and its Determinants

By the term density, we mean number of persons living per square kilometer. As per 1981 census, the density of population in India was 221 persons per sq. km. in 1971 the corresponding figure was 178. In other words, during the last decade (1971-81), density of population increased by 24 percent. Compared with other countries of the world, the density of population in India can be considered as medium. On the one extreme, we have low density countries like Australia and Canada with figure of 2 persons living per sq. Km. On the other extreme, we have high density countries like Japan and England. Compared with the world average of 33 persons per sq. Km., density of Indian population is fairly high.

Wide variation are observed in different regions of the country regarding density of population. Kerala, West Bengal, Bihar, Himachal Pradesh and Nagaland are among the low density regions. Delhi and Chandigarh show very high density.

Table 4 : Density of Population in India according to 2011 Census

State/Union Territory	Population (In millions)	Density (per sq. Km.)
Delhi	13.8	11297
Chandigarh	0.9	9252
Kerala	31.8	859
West Bengal	80.2	1029
Bihar	82.9	1102
Tamil Nadu	62.1	555
U.P.	166.0	828
Punjab	24.3	550
Haryana	21.1	573
Maharashtra	96.7	365
Andhra Pradesh	75.7	397
Karnataka	52.7	319
Assam	26.6	397
Odisha	36.7	269
Gujarat	50.6	308
Madhya Pradesh	60.4	236
Rajasthan	56.5	201
Himachal Pradesh	61.0	123
Jharkhand	26.9	414
Chattisgarh	20.8	189
All India	1027.0	382

Among the factors responsible for density of population, the most important is the availability of employment opportunities. The relatively industrialized states like West Bengal, Tamil Nadu could attract population from neighbouring states in search of employment. Urban industrial centres like Kolkata, Mumbai, Ahmedabad, Kanpur, Delhi, Chennai, Ludhiana, Coimbatore, Bangaluru have much higher density. Similarly, the seats of administration, where a very large number of government establishments exists also attract population which settles in these towns. Besides this, regions which have been developing at a fast rate, also attract from neighbouring areas Hilly area generally show very low density due to difficult of cultivation climatic factors and the problems associated with a comfortable living.

Overall increase in density for the entire country depends upon the rate of growth of population. Given the total area available in the country, density will continue to increase with the growth of population. However, the distribution of population within the various regions of the country depends upon the state of economic and industrial development and the availability of employment opportunities in a region resulting from a variety of factors.

3. Sex Composition of Population

Sex composition on India population reveals that there has been an excess of males over females. Whereas in 1921, females per 1000 males were 955, the number has declined over the years and now it stands at 940 (2011).

Table 5 : Number of females per 1000 males in India

1901	972
1921	955
1961	941
1971	932
1981	935
1991	929
2001	933
2011	940

In contrast to the male population in India, in most of the advanced countries of the world, there was excess of females over males. In USSR, this figure was 1,170, in U.K. 1060 and USA 1050, Several factors account for the lower population of females to male in India, Firstly, since the males were treated as bread earners in the family, there was greater care and attention given to males. This resulted in a relative neglect of females. Secondly, greater proportions of deaths were observed among females of reproductive ages. Neglect and poor maternity care were responsible for high death rate among women in the age group 11-19. Thirdly, poverty also acts as an important factor influencing sex ratio. Poor families with limited resources prefer to allocate better diet for earning members of the families, generally males and this resulted in the poor nutrition of females and higher death rate among them.

4. Age Composition of Population

The study of age composition is helpful in understanding the proportion of a labour force in total population. To study the age composition, the population of a country is divided into three broad categories, child population (0-14), working age group (15-59) and old population (60 and above).

Table 6 : Percentage distribution of India's Population by age group

	AGE GROUP		
	0-14	15-59	60 and above
1911	38.8	60.2	1.0
1931	38.8	30.2	1.5
1961	41.0	53.3	5.7
1970	41.4	53.4	5.2
1981	39.5	54.1	6.4
1991	36.5	57.1	6.4
2001	35.6	58.2	6.3
2011	30.8	60.3	8.6

The age composition of India's population reveals a higher proportion of child population (Age 0-14). For the period 1911 to 1976, the child population ratio has varied between 38 to 41 percent. It has slightly increased after 1931. This is largely due to higher birth rate. Even when birth rate declined a little. A relatively decline in infant morality has increased the proportion of child population in the total population. Similarly with an increase in longevity, the proportion of old persons has also resin and old persons as representing unproductive consumers, it implies that the proportion of unproductive consumers has risen from about 40 percent in 1911 to 45 percent in 1976.

5. Occupational Distribution

The occupational distribution of population can be classified into three categories :

(a) Primary Sector : Includes cultivators, agricultural labourers, persons working in forestry, fishery and plantations and animal husbandary.

(b) Secondary Sector : Includes and quarrying, persons engaged in household industry and other than household industry i.e. factory establishments (small, medium and large).

(c) Tertiary Sector : Which include persons engage in trade and commerce, transport, storage and communications and other services.

Data regarding percentage distribution of workforce in India reveal the following :

Table 7 : Occupational distribution of workers in India

	1901	1951	1971	1981	1991	1999-00	2009-10	2011-12
A. Primary Sector (1+2+3)	71.8	72.1	72.1	66.7	66.8	56.7	53.2	48.9
1. Cultivators	50.6	50.0	43.3	41.5	38.4	—	—	—
2. Agricultural Labourers	16.9	19.7	26.3	25.2	26.4	—	—	--
3. Livestock; forestry, fishing, hunting and plantations	4.3	2.4	2.4	1.9	--	—	--	--
B. Secondary Sector (4+5+6+7)	12.6	10.6	11.2		12.7	17.5	21.5	24.4
4. Mining and quarrying	0.1	0.6	0.6		0.6	0.7	0.60	0.5
5. Household Industry*	—	—	3.5		—	—	—	--
6. Other than household Industry	11.7	9.0	5.9		——	—	--	--
7. Construction	0.8	1.0	1.2	33.3	1.9	25.8	9.6	10.6
C. Tertiary Sector (8+9+10)	15.6	17.3	16.7		20.5	11.1	25.4	26.7
8. Trade and Commerce	6.0	5.3	5.6		7.5	4.1	—	11.4
9. Transport, storage and Communications	1.1	1.5	2.4		2.8	10.6	4.3	4.4
10. Other Services	8.5	10.5	8.7		10.2	10.6	10.3	10.9
Total Workers	100.0	100.0	100.0		100.0	100.0	100.0	100

Note: *figures for household industry were not available separately.

Source : Datt & Sundharam Indian Economy; Misra and Puri : Indian Economy (2018 ed.)

Due to changes in the definition of worker in different censuses, the figures pertaining to different years are not strictly comparable, but they broadly point out the changes in occupational distribution that have taken place during the last 73 years. During 1901-1971 the proportion of workers engaged in the primary sector (agriculture and allied activities) has remained nearly 72 percent. This is a clear indication of our economic backwardness, since a higher proportion of population engaged in primary production (agriculture) is generally associated with low agricultural productivity and prevalence of large-scale disguised unemployment. A closer analysis of distribution of workers in the primary sector reveals a disturbing trend. Whereas the proportion of cultivators has declined from about 51 percent in 1901 to about 43 percent in 1971, the proportion of agriculture laborers has increased from 17 percent in 1901 to a little over 26 percent in 1971.

However, the proportion of workers engaged in the secondary sector had remained more or less constant over 70 years (1901-71). Rather there is a slight decline in the percentage of working force employed in the secondary sector from 12.6 percent in 1901 to 11.1 in 1971. In other words, the process of industrialisation started after independence failed to divert a significant proportion of the population from agriculture to industry.

But so far as the tertiary sector is concerned, there has been a slight improvement in the proportion of workers engaged in it. This is due to a rapid expansion of transport and communication system, a vast increase in storage and warehousing facilities and a rapid expansion of welfare activities by the state in terms of health, education and labour welfare.

Colin Clark in his work **'Condition of Economic Progress'** argued that there is a close relationship between development of an economy on the one hand and occupational structure on the other. "A high average level of real income per head is always associated with a high proportion of the working population engaged in tertiary industries.......low real income per head is always associated with a low proportion of working population engaged in tertiary production and a high percentage in primary production." Judged by this criterion, the Indian economy during occupation distribution with a slight shift has remained unaltered. A probable expansion of the initiated in the Plans. Such a course makes the process of industrialisation less labour absorbing. Only a decentralized pattern of industrialisation with less labour intensive bias can shift population from agriculture to small industry and thus bring about the much desired occupational distribution. This can also help to reduce the dependence of labour force on agriculture.

6. Literacy

The Census collects figures of literacy. A person is considered to be literate if he or she can read or write with understanding in any language. Literacy rates are more meaningful if children of the age group 0-4 are excluded from total population. Although this is most desirable, but due to lack of information, the census of 1981 has used total population as the denominator.

Table 8 : Literacy in India

Literate as percentage of total population

Year	Persons	Males	Females
1951	16.67	24.95	7.93
1961	24.02	34.44	12.95
1971	29.45	39.45	18.60
1981	43.7	56.5	29.5
1991	52.2	64.2	39.2
2001	65.4	75.8	52.1
2011	74.04	82.14	65.5

There has been a growth in literacy, more so, after the attainment of independence. The rate of literacy which was about 17 percent in 1951 has gone up to about 36 percent in 1981. This is certainly not a very satisfactory situation and the progress on this from has been rather slow. Another features of the literacy problem in India is the disparity between male and female literacy. Whereas male literacy has improved from about 25 percent to about 47 percent during the period 1951-81, female literacy has improved from about 8 percent to nearly 25 percent during the period. This further underscores the need for improving female literacy, since it has implications for economic growth, family planning and family welfare.

7. Planning Problem as hindrance to Economic Development

The population of a country is an asset on the one hand a liability, on the other. The population of a country is an active agent that acts on natural resources to produce goods and services in a society. With a very small population, it is not possible to go in for the specialization and division of labour required for thousands of occupations associated with a modern industrial system. It is also difficult for such countries to become economically independent. In this sense population is an as set. But a country has to provide food, clothing, shelter, housing, health facilities and employment to a large population. In this sense, it is a liability. As such, a fast growing population acts as hindrance to economic development. It would be of interest to study the various aspects of the population problem.

(i) Population and per capita growth of real income : During 1960-61 and 1978-79, national income grew at an annual average rate of 3.4 percent per annum, but per capita income (measured at 1970-71 prices) grew by 1.3 percent per annum. It only implies that the population grew at an annual average rate of 2.1 percent. Had the growth of population been less, it would have helped to raise per capita income much faster. Thus a rapidly growing population acts as a hindrance to the effort for raising the level of living in a country.

(ii) Population and food supply : Between 1956 and 1982 population increased from 397 million to 289 million - an increase of about 72 percent. As against it, food supply increased from 62.6 to 114.1 million tonnes - an increase of about 83 percent. As a result per capita food availability rose merely by 5.3 percent which is too insignificant. Rapid population growth has not permitted an increase in per capita food availability. In certain good harvest years, per capita availability of foodgrains was high, but that was a temporary phenomenon. The trend in growth of per capita availability of foodgrains indicates that a very small increase took place and this was mainly due to rise in population.

Table 9 : Per Capita Availability of Foodgrains

Year	**Population (million)**	**Per capita Availability of Ceeals and Pulses (grams)**
1961	439	469
1971	543	469
1981	683	455
1995	846	510
2001	1029	419
2011	1210	N.A

Note: (a) Foodgrains include cereals and pulses

(b) Net availability = (Domestic production + imports + change in government stocks)

(iii) Population and burden of unproductive consumers : The population of a country can be divided into productive and unproductive consumers. That part of the population which is engaged in employment is a part of the labour force and is called productive population as it contributes to national income. The remaining part of the population comprising of children, non working women, old persons beggars and *Sadhus* or persons suffering from chronic diseases are not engaged in any productive work. They are dependent on the productive population and are, therefore, called unproductive consumers.

Table 10 : Productive and Unproductive Consumers in India

	Total working Population (Productive Consumers)		Total Non-working Population (Unproductive Consumers)	
	Million	Percent	Million	Percent
1961	183	43.0	256	57.0
1971	175	34.2	372	35.6
1981	220	37.6	464	62.4
1991	315	37.6	529	62.4
2001	402	39.2	623	68.8

From Table 10, it may be noted that as against 183 million productive consumers in 1961, their number declined to 175 million in 1971 but this was the result of a more strict definition of workers adopted in 1971 and thus a number of persons listed as workers in 1968 were excluded in 1971. But later the census of

1981 revealed that the number of productive workers increased to 220 million. In relative terms, the population of productive consumers declined from 34 percent in 1961 to 37.6 percent in 1981,whereas those of unproductive consumers increased from 256 million to 464 million during 1961-81. Since children from the situation. A decline in birth rate along can reduce the dependency load of the population.

(iv) Population and unemployment : A rapid increase of population makes the solution of the problem of unemployment more difficult. Besides the provision of employment for the existing unemployed, new entrants to the labour force have also to be provided jobs. In 1971, the committee of Experts of Unemployment revealed that the total number of unemployed was 18.7 million. As a proportion of the total labour force, unemployment worked out to be 10.4 percent. The total number of unemployed in 2011-12 was 24.7 million. Since India is passing through the phase of high population growth, popularly referred to as "Population Explosion, the new additions to the labour force are so large that is not possible to provide employment to them, not to speak of reducing the backing of the unemployed. A reduction in the rapid growth of population can certainly help in the solution of the problem unemployment.

(v) Population and the problem of health, education and housing : With a rapidly growing population it becomes increasingly more difficult to provide education, housing and medical care. There is no doubt that in the post-independence period, there has been a rapid expansion of educational facilities but the number of children seeking admission in schools and collages and university departments. However, the demand for higher education is very high on account of the pressure of unemployment.

Similarly, the shortage of housing is the direct consequence of rising population and our failure to bring about a proportionate increase in housing facilities. At the beginning of the Fifth Plan, the shortage of housing was estimated to be 156 lakh houses - 108 lakh in the rural areas and 48 lakhs in the urban areas. This deficit is becoming larger every year, since the creating of additional housing is not enough to meet the needs of increasing population.

Huge crowds observed in the hospitals, indicate that despite rapid expansion of medical facilities, it has not been possible to provide adequate medical and health facilities. The large number poses a serious problem.

From the foregoing analysis, it becomes abundantly clear that a rapidly growing population is an obstacle to economic development. It would be advisable to add a word of caution here. Some economists hold the view that population problem is at the root of all economic ills of the country. This is not true. There is no doubt that the problem of mass poverty is aggravated by a rapidly growing population but the primary reasons of the existence of mass poverty are maldistribution of land and other forms of income yielding assets, inappropriate choice of technology resulting in large unemployment, the exploitation of the peasantry and the labour force by the landlord and capitalist classes and unequal opportunities to the children of the poor and backward classes. Thus the growth of population is a consequence of mass poverty. The country must pursue a dynamic population policy so that birth rate is effectively reduced and the growth of population slows down.

8. Population Policy

The government of India was first to officially accept family planning as a part of state policy. The solution of India's population problem lies in reduction of birth rate since death rate was continuously and rapidly declining.

In 1981, the population of India reached 684 million. It was around 1210 million in 2011. Such a huge population, therefore, imposes burdens on the economy both in economic and social terms. The answer to the problem of population growth is, therefore, planned parenthood popularly called as family planning or more recently termed as family welfare.

For the guidance of the policy makers, studies of population in various parts of the country have drawn the following conclusions :

(i) As compared with the urban areas, birth rates are higher in the rural areas.

(ii) Number of children born in poor families is greater than that in families with better economic status.

(iii) Age of marriage is lower in rural areas than in the urban areas. Among the poor and the literate, this is even still lower.

(iv) Number of children born in a family with the rise in educational status of the couples. The less educated and illiterate families have on the average 5 to 6 children.

(v) Religion is a hindrance to family planning in India.

(vi) Family planning programme should concentrate on the couples in the group 15-35.

(vii) The desire among the poor and illiterate to limit their families is present but they cannot purchase contraceptives due to lack of enough money.

(viii) People in rural areas considered 3-4 children as the optimum number of children for a family, whereas those in urban areas consider 2-3 children as enough. However, both in rural and urban areas, the desire to have at least one son in the family is universal. Poor people believe that son is an old age insurance for the parents.

Among the policy measures taken to promote family planning, the following may be listed;

(i) Motivation of people for family planning : Mass media are used to motivate people for family planning. Radio, T.V., Films, newspapers, advertisements, dramas, talks, lectures slogans that the maximum number of children in a family should be two has caught the imagination of the people. Moreover, the idea that children by choice are better is gaining root in the minds of the people.

(a) Measures to control birth rate : Two kinds of birth control measures have been used.

(b) Those which help in the termination of pregnancies: The Government legalized abortion in 1972 as a measure of family planning. Gradually people realized that there is nothing wrong in the choice of this method if other methods fail. However, the effectiveness of this measure depends upon better hospitalization facilities.

(c) Those measures which free the people permanently from the risk of pregnancies : Sterilization is a method which frees couples permanently from the risks of pregnancies. When performed on the male, it is called vasectomy and when performed on the female, it is called tubectomy. This method is generally to be used when the couples have 2-3 children and desire no more. To motivate people, the government gives increments to its employees who undergo sterilization.

During 1976, the government announced compulsory sterilization as a method of family planning. This resulted in 8 million forced sterilization being carried out in a single year. There was a very strong resentment against this measure and the defeat of the Congress (I) in 1977 elections was largely due to the Janata Government promise that it would not use coercion. Even though the Congress (I) came to power in 1980, it also declared itself against the use of coercion in any form for sterilization of the people. Thus, motivation programmes are being pursued as a matter of policy for voluntary sterilization.

(ii) Raising the age of marriage : A very successful measure of family planning is to raise the age of marriage. The government has fixed the minimum age of marriage for girls to be 18 and that for boys to be 21. But violation of this law is very frequent, more so in the rural areas and among the poor.

The experience of Kerala is a bright example of the success of voluntary methods in family planning. Birth rate has already touched a low level of 25 per thousand. This is largely because of high levels of literacy attained in this state.

National Population Policy (2000)

The National Population Policy was adopted on 15th February 2000 with a view to encourage two child norm. The long term objective is to achieve a stable population by 2045, at a level consistent with the requirements of sustainable economic growth, social development and environmental protection. In pursuance of these objectives, the following National Socio-Demographic Goals were to be achieved in each case by 2010 :

(i) Address the unmet needs for basic reproduction and child health services, supplies and infrastructure.

(ii) Make school education upto age 14 free and compulsory, and reduce dropouts at primary and secondary school levels to below 20% for both boys and girls.

(iii) Reduction of infant mortality rate below 30 per 1000 line births.

(iv) Reduction of maternal mortality rate to below 100 per one lakh live births.

(v) Universal immunisation.

(vi) Incentive to adopt the two-child small family norm.

(vii) Facilities for safe abortions.

(viii) Strict enforcement of child Marriage Restraint Act.

(ix) Raising the age of marriage of girls to 18 and preferably to 20.

(x) Health insurance cover for those below the poverty line who undergo sterilisation after having two children.

Besides, elementary education would be made free and compulsory and registeration of marriage, pregenancy would also be made compulsory, along with births and deaths.

QUESTIONS FOR PRACTICE

1 What are the causes of growth of population?

2. Define Density of Population.What are its determinants?

3. Write a detailed note on population policy.

SUGGESTED READINGS

1.	Gaurav Datt and Ashwani Mahajan	:	Datt and Sundharam Indian Economy (latest edition)
2.	Misra and Puri	:	Indian Economy (Latest edition)
3.	A.N. Aggarwal	:	Indian Economy

LESSON NO. 2.7

POVERTY AND ECONOMIC INEQUALITY IN INDIA

Structure :

I. Introduction

Poverty is a complex phenomenon that exists in different forms and varying degrees in almost all the developed and developing countries. Even the most affluent nation whose economy is over trillion dollars, is plagued by this problem. Similarly Indian economy also suffers from these evils of poverty and inequality in spite of economic development under the plans.

In the present lesson we shall first deal with the problem of poverty, after that with the economic inequality in India.

II. Objective

The objective of the present lesson is first to clarify the concept of poverty and study the extent, nature and causes of poverty in India. Next we also propose to study the problem of economic inequality, its extent, causes and measures to reduce inequality in India.

III. Poverty in India

(i) Concept of Poverty :

Poverty can be defined as a social phenomenon in which a section of the society is unable to fulfill even its basic necessities of life. Attempts have been made in all societies to define poverty; but all of them are conditioned by the vision of minimum or good life obtaining in society.

In India, poverty has been defined as that situation in which an individual fails to earn income sufficient to buy him bare means of subsistence. Seebhom Rowntree, in his famous survey on poverty states that people, whose income is insufficient for the necessities of life, are living in poverty. Prof. Theodore has aptly observed that poverty is an inadequate index of economic efficiency. There are four outstanding aspects about Indian poverty. First, the vicious circle of poverty of India, in fact, more vicious than that of other countries, whether underdeveloped or developed. India is poor because she is poor. Hence poverty is a chronic as well as persistent malady in this country. Secondly, we have chosen a very low standard as the poverty line in fact one that is below subsistence level. In the Approach Document to the Fifth Plan, the Planning Commission lays down that poor persons are those who are living below a basic minimum level of consumption, more exactly, below Rs. 20 per capita expenditure per month at the 1971-72 prices. But, the size of Indian poverty is frighteningly large. The third obvious aspect about Indian poverty is that on top of this huge size the poverty is being aggravated with the passage of time, in spite of our best efforts through planning. The fourth fact of Indian poverty is that it is quite vivid and visible.

(ii) The Dimension of Poverty

To appraise the size 'and urgency of the task of tackling the problem, a rough measurement of the dimension of poverty is needed. To quantify the extent of poverty and measure the number of 'poor' in the country, professional economists have made use of the concept of 'poverty line'. Among these economists we may specifically mention the studies conducted by Bardhan, Minhas, Dandekar and Rath, Ojha, Ahluwalia, Vaidyanathan and Bhatty. In order to define the 'poverty line', all of these studies (a) have determined the minimum nutritional level of subsistence, (b) have estimated the cost of this minimum diet, and (c) on the basis of the per capita consumption expenditure, have delineated the line of poverty. Roughly, the same procedures are used in the various studies. For example Dandekar and Rath use an estimated minimum calorie intake level of 2520 per day. To take account of the changes in the price level over a period of time, Minhas uses the national income defaulter, whereas Bardhan and Vaidyanathan use the agricultural labour consumer price index, on the ground that it is more representative of the price level facing the poorer of the population. Bhatty computed Sen's Index of Poverty, besides the head court ratio, separately for cultivators, agricultural labourers and non-agricultural workers and by States, using alternative poverty lines. Some of these studies are confined to the rural sector, while a few look at both the urban and rural sectors. Similarly most of the studies look at both all India and State level data, while some are confined to the all India data only.

The estimates of poverty in India provided by Dandekar and Rath, Minhas, Bardhan and Ahluwalia are quite old and do not indicate exactly the same incidence of poverty. One would note that the divergence between the results of these economists is quite large. According to Minhas, only 37.1 per cent of the rural population was below the poverty line in 1967-68, as against Ahluwalia's estimate of 56.5 percent and Bardhan's estimate of 54 percent in the same year and Dandekar and Rath's estimate of 40 percent for 1968-69. These economists use the same data source for their studies, but methodology is not the same.

Table -1 (LAKDAWALA METHODOLOGY) POVERTY RATIOS (Percent)

Areas	1977-78	1987-88	1991-94	2001-02	2004-05
Rural	53.1	39.1	37.3	27.1	28.3
Urban	45.2	38.2	32.4	23.6	25.7
Combined	51.3	38.9	36.0	26.1	27.5

Source : Economic Survey 2011-12 and 2003-04

According to the Seventh Plan document 40.4 percent of the rural population was below the poverty, line in 1983-84. The corresponding percentage for the urban population was 28.1. The overall poverty ratio was 37.4 percent. The Planning Commission's estimates of the poverty ratio for 1987-88 indicate further decline in the incidence of poverty. The Planning Commission has attributed this achievement mainly to the higher rate of growth, the increase in agricultural production and a substantial effort at providing employment on rural works through the Integrated Rural Development Programme (IRDP), the National Rural Employment Programme (NREP) and the Rural Landless Labour Employment Programme (RLEGP). Some economists have raised serious doubts about the claims of the Planning Commission.

According to V.M. Dandekar, "the Planning Commission has used erroneous methods to demonstrate a large reduction of poverty in the country" since 1973-74. The estimates of Minhas, Jain and Tendulkar clearly show that the decline in the incidence of poverty between 1977-78 and 1987-88 was quite modest and not as spectacular as claimed by Planning Commission (Table-2)

Table -2

Estimates of Poverty by Minhas, Jain and Tendulkar Methodology

Areas	1983	1987-88	2004-05	2011-12
Rural	50.8	48.7	41.8	25.7
Urban	39.7	37.8	25.7	13.7
Combined	48.1	45.9	37.2	21.9

Source : B.S. Minhas, L.R. Jain and S.D. Tendulkar, "Declining Incidence of Poverty in the 1980s-Evidence versus Artefacts," Economic and Political Weekly, July 5,13,1991, Economic Survey 2011-12, 2014-15.

Using the methodology suggested by Expert Group : the Planning Commission worked out that the overall proportion of population below the poverty line was 27.5 percent in 2004-05. Separately, while in rural areas 28.3 percent population was below the poverty line, in urban areas the proportion of population falling in this category was 25.7 per cent.

All the estimates of the incidence of poverty are based on the head-count which is peculiarly non-discriminatory. Amartya Sen has argued, "The poor is not an economic class, nor convenient category to use for analyzing social and economic movements. Poverty is the common outcome of a variety of disparate economic circumstances and a policy to tackle poverty must, of necessity, go beyond the concept of poverty. The need for discrimination is essential"[1] Ozler, Dutt and Ravallion in their study for the World Bank have estimated poverty gap ratio and squared poverty gap ratio for the period 1951-94. These estimates measure both depth and severity of poverty, besides incidence of poverty. These estimates clearly indicate that from 1950-51 to 1973-74 there was no long term time trend but there after there was a steady decline in the poverty gap index till 1989-90. In the early nineties this trend was reversed and in 1993-94 the poverty gap index was 9.1 for rural population and 7.62 for the urban population. Estimates of the squared poverty gaps show that until 1973-74 the severity of poverty had not declined as compared to 1950-51. However, since 1973-74 there is a sharp decline in squared poverty gap index for both rural and urban population.

Human Development Report 1997 introduced a human poverty index. The Report acknowledged that "human poverty is larger than any particular measures, including the human poverty index. One major indicator of human poverty is a short life. In India nearly one fifth of the people are not expected to survive to the age 40. Secondly in India, adult illiteracy rate was as high as 48.8 percent in 1994.

1. Amartya Sen "Poverty and Economic Development," in Charan D. Wadhva (ed.). Some Problems of India's Economic Policy (New Delhi, 1977), p. 246.

in economic provision is also high in India.

The Human Development Report 1997 computed human poverty index for 78 countries. India's rank in terms of this index was as low as 47. This clearly reflects country's unsatisfactory performance in alleviating human poverty. Some poor countries like China, Srilanka, Cuba and VietNam have succeeded in alleviating human poverty to a great extent. India should follow these examples and orient its policies accordingly. In 2012, Human Poverty Index was 28.

(iii) Nature and Cause of Poverty

Poverty abounds both in the rural and urban sectors of the economy. The nature of poverty in both the sectors, however, differs. In the rural sectors, intense poverty is to be found among peasant-cultivators with very small holdings and landless labourers. In the urban sector, most of the poor people are unemployed or underemployed in what has come to be termed as the informal sector. Poverty cannot be attributed to any single cause or a single set of causes. It is a complex phenomenon and as such is the out come of the interaction of diverse factors, economic and non-economic. Some of the important causes of poverty are as follows :

Underdevelopment

India is poor because India is economically backward or underdeveloped. Underdevelopment has been the result of the meager rates at which the economy has grown during the plans. The growth strategy pursued in our Plans, specially in the agricultural sector has not been seriously designed to fight poverty. We are unable to make on optimum use of resources. There is tremendous underutilization of land, labour and capital from the national point of view. Moreover, it is also wasteful in the sense that it makes excessive demands on public funds for modern technology and inputs and totally neglects the tapping of traditional and local resources, as well as self-generated resources. It is thus parasitical in its character in so far as the surpluses generated from modern agriculture do not contribute adequately to capital formation and growth of non-farm sectors, they are directed to various forms of conspicuous consumption.

Industrially, too, India is still backward in spite of the existence of modern industries. Lack of dynamic entrepreneurs, adequate finance, paucity of skilled and technically trained personnel and irregular supply of power and the required raw materials and equipment and inefficient labour account for the slow industrialisation of the country.

Economic backwardness of the country, in general, is due to weak infrastructure in the form of railways, roads, etc. In fact, India is caught up in a vicious circle of poverty. She is poor because she is poor.

Unemployment and low level of wages

Poverty is caused by under-employment or unemployment coupled-with low rates of wages. Unemployment causes unrest in the economic system and increases the intensity and extent of poverty.

Inequalities of income

The other important cause of poverty in India is the prevalence of serious inequalities of income, both in the rural and the urban sectors of the economy, that have resulted in "lions cornering the increased size of the cake." The inequalities are caused by differences in the ownership of assets-land in the rural areas and material assets in the urban areas. Simon Kuznets has stated that inequality in the size distribution of income when associated with a lower level of per capita income results in a higher degree of inequality in the distribution of economic, social and political power. In such a situation, benefits of grant cannot be expected to percolate down to tackle the problems of inequality and poverty.

Population Explosion

Rapid growth of population is another important cause of the prevailing poverty in the country. It is obvious that when a certain income has to be divided among too many people, the per capita income is bound to be low, since the total national income is thinly spread over a large number of people. The teeming millions consume the bulk of the national product, leaving very little surplus available for productive investment.

Social Factors

Economic development is not merely a matter of economic resources; it also depends on urges, attributes and aspirations of the people. Indian people lack initiative and resource fullness. They are fatalists by conviction. The caste system and the joint family system and the laws of inheritance are a great obstacle to economic overheads, she is also poor in social overheads like education, public health and medical facilities. Thus, Indian social institutions and attitudes hamper economic progress and are responsible for perpetuating poverty. Among Indians, ceremonies and customs are so elaborate and expensive that they reduce many to poverty.

Political Factors

Being under foreign rule, India was exploited under the British regime. The prosperity of their mother country, (Britain) and not our mother country, (India) was the primary concern of the British rulers. Naturally, India remained poor. Since Independence, other political factors have adversely affected economic progress. We have political leaders who have placed self before service and who do not hesitate to enrich themselves at the cost of the country. The Congress Government adopted 'Garibi Hatao' slogan but few took it seriously or believed that anything would be done to remove poverty.

Thus, all factors, economic, social and political, have conspired to perpetuate poverty in India. There is poverty because of the concentration of economic, social and political power in the hands of the upper strata of society. They are so strongly entrenched that they will not let anything happen which may touch their pockets. But unless they are touched, the poor cannot be uplifted, because the resources are limited. Thus the fight against poverty is the fight against exploitation by those who are the principal beneficiaries of growth.

(iv) Measures to reduce Poverty :

The problem of poverty poses the greatest challenge for us and we have to launch a full scale war against it. We shall spell out below various policies and measures that should be adopted as parts of the strategy to eradicate poverty in the country.

Acceleration of Economic Growth :

The first and foremost element in the strategy for removal of poverty is the acceleration in the rate of economic growth. The greater the growth rate, the larger are generally the employment opportunities. And the expansion in employment opportunities will help in removal of poverty. In other words, employment generation and eradication of poverty can be possible through 'trickle down' effect of economic growth.

Rural Public Works :

To provide employment to the rural people rural public works should be started on an extensive scale. Under this scheme of rural public works, the unemployed rural poor are employed on the construction of roads, wells, irrigation tanks, canals, bunds, anti-food measures, rural electrification works, and so on. With the help of rural public works, not only can the idle manpower be given employment and their poverty removed but capital assets and infrastructural facilities for agriculture will also be build up, which will help in raising agricultural productivity.

Land Reforms :

This is a significant measure for the removal of poverty. By the imposition of ceilings on landholdings and their effective implementation, a good amount of land can be acquired to be distributed among the landless labourers. On obtaining land, the landless labour will be able to employ themselves and will produces subsistence for themselves.

Rural Industrialisation :

Unfortunately, the rate to which the rural labour force is increasing, as a result of rapid population increase, is so high that even if all' the measures for generating additional employment opportunities in agriculture and allied activities are adopted, there will still remain considerable unemployment and underemployment among the rural masses. Since the large manufacturing industries require massive capital investments and high technical skills, which are both scarce in India, rural industries with their small-scale and simple technology offer much larger opportunities for employment.

Incentives for labour – intensive industries :

Something needs to be done for the urban people including the educated unemployed and the poor settled in urban areas. Measures should be adopted which encourage the employment of more labour in preference to the capital intensive techniques. Tax concessions and subsidies should be provided to those industries which employ more labour.

Provision of Common Services and Social Security :

If the State spends large amounts on the provision of free common services like education, medical and recreation facilities to the masses, this will add to their real consumption and make them feel better off. The provision of social security to industrial labour also has the similar effect of raising the consumption standards of the poorer sections of the urban society. Provision of free or subsidized housing sites or houses to the poor can also relieve poverty. A network of fair price shops, especially in the rural areas, may be set up, where the necessities of life like food grains, cloth, edible oils, sugar, etc. are made available to the weaker sections of society at subsidized or controlled rates.

Population Control :

Finally, a basic element in India's antipoverty strategy has to be population control. Unless that is done, additions to wealth production will be eaten up by the fresh torrent of babies. If population growth is not checked, our progress would be like writing on sand on the sea-shore with the waves of population growth washing away all that we have written. The country must intensify its family planning campaign if it is desired that all other measures suggested for the removal of poverty should succeed.

Accelerating the rate of surplus generation :

It is increasingly realized that to attain equity and faster progress in the poverty alleviation, the present rate of surplus generation of the economy is insufficient. At the same time, any more substantial increase in surplus generation, by increased resource mobilisation will be difficult when the people's propensity to save and the tax rates are already high compared to other developing countries with the same level of development, and the consumption levels are rather low. Therefore, the emphasis should go in favour of generating more surplus in real sense in the production process.

Stepping up agricultural growth in less-developed regions :

Stepping up agricultural grant in the less developed regions where labour is abundant, wage rates are low and poverty is widespread is likely to contribute significantly to the reduction of poverty. There have to be special efforts for evolving technologies suited for dry land agriculture. Also public investment has to be stepped up for evolving such technologies. Agriculture, being labour-intensive and small farmer-based, offers a considerable potential for achieving the objective of poverty eradication.

Organised action by the poor themselves :

In the ultimate analysis, the objective of removal of poverty can be fulfilled in the measures in which the poor themselves become conscious, improve their education and capabilities, become organized and assert themselves. A large majority of the poor are unorganized and engaged in activities which are informal and which do not land themselves easily to organizations. Therefore, public intervention and the strategy for poverty removal has to be such as to promote group endeavour.

(v) Government Strategy under Plans:

Poverty alleviation and raising the average standard of living have been the central aims of economic planning in India. The plan strategies to achieve these aims can be broadly divided into three phases. In the first phase, the prime emphasis was on growth, mainly through improvement in infrastructures and heavy industries. For achieving this, the policy choice was directed to measures for generating higher rates of saving and investment.

In the second phase, beginning with Fifth Plan, poverty alleviation came to be adopted as an explicit objective of economic planning. Several specific programmes for poverty alleviation are directed towards selected target grops were launched.

In the third and present , beginning with Fifth Plan, poverty alleviation came to be adopted as an explicit objective of economic planning. Several specific programmes for poverty alleviation directed towards selected target groups were launched.

It is realized that a strategy based on growth or one on equity and poverty alleviation could not be made effective in isolation. During the sixth plan many of the poverty alleviation programmes proved unviable because of shortage of necessary resources. It came to be realized that poverty alleviation schemes can be life-savers during a drought, but cannot reduce poverty on sustained basis.

In a nut-shell we can say that, poverty in India during the period of economic planning has relied on four types of strategy : (i) growth, (ii) redistribution, (iii) basic needs, and (iv) directed targeted programmes, also known as poverty alleviation programmes (PAPS). Most of these programmes are in the form of employment generation schemes aimed at the target group, i.e. the households living below the line of poverty. Several poverty alleviation programmes are being implemented by the govt. of India for example the Mahatama Gandhi National Rural Employment Guarantee (MGNREGA), Swaran Jayanti Gram Swarozgar Yojana (SGSY), Swarna Jayanti Shahari Rozgar Yojana.

The economic reforms under way in the Indian economy, as at present as part of the New Economic Policy and Structural Adjustment Programme, have been described as a part of the war against poverty, non an agenda for growth for growth in itself. The SAP is basically a collection of those policies that are regarded as market friendly.

There is no doubt that the government and people in India are now awakened to the serious problem of poverty and apparently some frantic efforts are being made to reduce its incidence. But the measures taken so far for the purpose amount to more scratching of the surface. It may look cynical but it is true that poverty cannot be eradicated. The poor have always been with us and we are callously convinced that they will continue to be with us. We have to march forward and boldly to fight poverty by all means we can. Poverty is a great menace to political stability.

IV. Economic Inequality

(i) Meaning :

The state of equality does not mean that there is no inequality at all. The goal is the minimum of inequality that is workable, but fair shares; not equality, but social justice, as has been aptly observed by Douglas Jay. It is axiomatic that some measure of economic inequality is inevitable because it is the outcome of interpersonal difference in intelligence, skill, habits, etc.

(ii) Relationship between economic equality and economic growth :

Inequality is the most intricate and bafflingly complex issue when juxtaposed with economic growth. Economists differ in their opinion regarding the relationship between economic equality and economic growth. According to the Western economists the goal of economic growth and egalitarian income are incompatible. According to Ricardo and other classical economists, taxation measures designed to attain a more equitable distribution of income dampens the rate of accumulation. Schumpeter also warns against re-distributive measures. They held the view that economic inequality is a by product of economic growth, but they were complacent that though economic growth tends to perpetuate inequality, in the long run, however, when employment opportunities increase the distribution of income tends to stabilize automatically. Most of the European economists consider inequality as a necessary condition. The experience in capitalist countries provide ample proof for the claim that economic inequality and economic growth go hand in hand.

The Marxians, the Keynesian School and a host of other modern economists, however, support the opposite view that redistributive measures and more equality are conducive to economic growth. The experience of Soviet Union is a case in point.

Economic inequality causes inequality of opportunity for higher education, technical training, development of innate capabilities and skill and thus perpetuate inequality.

(iii) The Dimension of Inequality :

Indian economy is beset with gross economic inequalities. There are different kinds of inequalities but among them following are important :

(i) Income inequalities

(ii) Assets inequalities

(iii) Regional inequalities

In India there is no official organization to compile data on income distribution. However, the National Council of Applied Economic Research (NCAER) and some individual researches have examined the pattern of income distribution in India at different points of time. Their results are not strictly comparable on account of differences in their methodology and data sources. Many extent and magnitude of inequalities of income have been studied on the basis of available data relating to (i) income distribution, (ii) consumption expenditure, and (iii) distribution of savings in the country. The data relevant of income distribution is contained in a number of studies carried out to measure the extent of inequalities. The results of a few of these studies are summarized in Table 3 which will be helpful in grasping the seriousness of the problem as also in looking for the causes and for devising measures for reducing these inequalities to a desirable level.

Table 3

Different Estimates of inequalities of Income in India

Source	**Ojha Bhatt**	**NCAER**	**World Bank**	**World Bank**	**World Bank**	**Ahmed Bhattaacharya**	**World**
Period Covered	(Ave 1961-62 to 1963-64)	1964-65	1975-76	1983	1989-90	1964-65	1992
Share of top 10%	35	33.5	33.6	26.7	27.1	31.1	28.4
Share of Bottom 20%	7	7.5	7.0	8.1	8.8	7.5	8.5
Lorenz Ratio	0.377	0.39	--	--	--	0.372	

Source : (i) The Indian Economy by I.C. Dhingra P. 138,. Ed 2005.

(ii) World Development Report 1997, P. 222-3.

A conclusion common to all the studies is the gross inequalities of income exists in India, not withstanding a marginal fall in the share of top 10 percent and a rise in the share of bottom 20 percent over the period.

These inequalities are more severe in respect of the consumption levels of the few at the top and the many at the bottom. Recently N.S. Iyengar and P.R. Brahmananda have calculated Gini-Lorenz Ratios of the size distribution of nominal per capita household private consumption expenditure. They have used the NSS data on consumption expenditure for this purpose.

Their results are given in Table 4.

Table 4

Planwise Average Gini-Lorenz Ratio

Plan	Number of Observations	Rural	Urban
First (1951-56)	6	0.34	0.38
Second (1956-60)	6	0.33	0.37
Third (1961-65)	4	0.33	0.35
1966-68*	3	0.30	0.33
Fourth (1969-73)	4	0.29	0.33
Fifth (1974-79)	1	0.31	0.33
1979-80*	NA	NA	NA
Sixth (1980-84)	1	0.30	0.33

* Annual Plan Years

Source : N.S. lyengar and P.R. Brahmananda, “Estimated Distribution Parameters and Their Behaviour,” in P.R. Brahmananda and V.R. Panchamukhi (eds.) The Development Process of the Indian Economy (Bombay, 1987), P. 87.

From the results given in Table 4 we can draw the following conclusions :

1. Since during the 1950s the average Gini-Lorenz Ratios for both rural and urban areas were higher than the Gini-Lorenz Ratio for the subsequent decades, inequalities in the distribution of consumption expenditure have declined over time.
2. From 1960 onwards upto the end of the sixth plan, the Gini-Lorenz Ratio of the rural areas was stable at around 0.30. This implies that during this period spanning two and a half decades inequalities in the rural areas did not increase. The Gini-Lorenz Ratio for the urban areas was stable at 0.33 over the two decades period from the mid 1960s to the mid 1980s.
3. The Gini-Lorenz Ratio for the urban areas are about 10 to 12 percent higher than the Gini-Lorenz Ratio for the rural areas. This shows that inequalities

are higher in the urban areas than in the rural areas.

Suresh D. Tendulkar makes use of the information in relative price movement for different groups of population to draw the following conclusions :

1. "While it is difficult to provide definitive quantification," from whatever evidence is available it seems "that relative inequality in levels for living in real terms may possibly have been lower towards the mid-1970s than in the early 1970s."
2. For the post 1973-74 period "it is not possible to make any statement regarding the time trends or movements in real terms of relative levels of living," because of the non-availability of "the estimates regarding the relative rates of growth of prices faced by bottom and the top fractals of the population corresponding to the pre 1973-74 perod."[1]

From the Gini-Lorenz Ratio now available it is not correct to conclude that inequalities of income distribution have also diminished.

1. The NSS data which lyengar and Brahamananda and some other economists have used for calculating the Gini-coefficients of higher wholly reliable in respect of consumption expenditures of higher expenditure groups. The rich in India have a natural tendency to understate their consumption.
2. Further, over time saving rate in India has risen. Iyenger-Brahmananda study should have taken note of this fact before arriving at the conclusion that economic inequalities have diminished merely on the basis of the private nominal consumption expenditure of the various groups.

(iv) Causes of Income Inequalities :

Having known that there exists glaring income inequalities in India, it is necessary to analyse their causes. In India two basic causes of income inequality are (i) the existing economic system based on the institution of private property, and (ii) the law of inheritance.

Private Ownership of Property :

India has a mixed capitalist economy. In this system not only land, buildings, automobiles, etc. are owned by individuals, but the means of production are also possessed by private companies and persons. Broadly, people in the country are divided into two main classes. In the first category, we may include all those who own means of production and other property.

In the second category, we may include rest of the people. Since these persons have no property, they rely on their labour power for their subsistence. Let us now see how income inequalities have arisen from private ownership of property.

(a) Inequalities in land ownership and concentration of tangible wealth in the rural sector :

There was concentration of landed property in India during the British period on account of the zamindari system. The zamindari system was abolished immediately after independence, yet the concentration of land ownership could not be broken. Various experts are of the view that the major cause of income inequalities in the rural sector is the concentrated ownership of land and other assets. Minhas, Dandekar and Rath and Bardhan have clearly stated that all agricultural workers and marginal and small farmers with less than 2 hectare holdings are poor. Incomes of big and large farmers may not be very high, at the same time there is no denying the fact that they are certainly high by Indian standards and since the green revolution they have been steadily rising. Now big and large farmers not only have capacity to save, they also have an access to institutional finance. They are attempting to improve the farm techniques. These efforts over the years have not only raised the earnings of these farmers, but have also accentuated income inequalities in the country side.

(b) Private ownership of industries, trade and buildings :

Indian's social system permits private ownership of industries, business and buildings. Hence, a microscopic minority has acquired control over vast assets. Industrial and business houses easily obtain capital from banks and other financial institutions, besides equity capital which they raise from the market. This is the reason why even in the period of recession their assets continue to increase. The pattern of assets distribution has enabled the industrialist, traders, transporters and owners of urban property to prosper over the years. In fact, they have been the real beneficiaries of growth, as they have control over the means of production.

(c) Inequalities in professional training:

Income of business executives, engineers, physicians, lawyers and other professionals are often high. In a class society like ours, training required for professional competence is not available to all. Only children belonging to elite families have access to higher and professional education. Sons and daughters of agricultural labours, industrial workers and socially handicapped cannot hope to get this education. Therefore, even the education and training which perpetuate inequalities in income distribution in this country have their roots in unequal distribution of wealth and private property.

Inheritance Law :

The existing inheritance law in India perpetuates income inequalities. According to this law, property of the father is inherited by his children and hence sons and daughters of wealthy persons automatically get resources whereby they easily manage large incomes.

Other Causes :

1. Population Explosion/Rapid growth of Population

As a result of galloping population growth, savings evaporate, scarcities multiply and resources are stretched so thin that they cannot cover the most essentials of life. With already low levels of income the increase in the family size further reduces their economic power. They grow poorer and at the same time, the rich become richer widening the gulf between the haves and the have notes.

2. Inequity in credit facilities :

In India, there is inequity in credit facilities which accentuates the inequalities arising from an unequal distribution of wealth.

3. Urban bias in private investment :

While 70 per cent of the population in this country lives in rural areas, about 70 per cent of private investment goes to industries in urban areas. Therefore, there is a distinct 'urban bias' in the pattern of private investment which leads to inequality in income distribution.

4. Urbanisation :

Another factor accentuating inequalities is urbanization. Since modern industries are generally located in urban areas, they gave rise to the demands of urban population for such things as transport, housing, drainage, water supply, electricity, health services etc. To meet these demands government undertakes large expenditure. This also accentuates income inequalities in as much as urbanities are better placed as compared to the rural people.

5. Loose control of government over private sector :

The government is expected to counter the tendency towards accentuation of economic inequalities through its direct participation in economic activity and policy interventions. However, the control of the government over the predominant private sector activity tends to be loose and uncertain.

6. Inflation and Price rise :

Since the mid-fifties prices have been rising continuously eroding the real income of the working class, while the industrialists, traders and farmers with large marketable surplus have benefited a great deal from this inflationary process. In India, very little has been done to offset this redistributive effect of inflation, and as a result it has greatly accentuated income inequalities.

7. Unemployment/Insufficient employment opportunities :

India carries a crushing burden of unemployment. Though educated manpower is a small fraction of the citizen, a large chunk of it is unemployed and under-employed. The devil of unemployment is a potent cause of economic inequality.

8. Growth factor :

As development proceeds, the earnings of different groups rise differently. The incomes of the upper income and middle income groups rise more rapidly than those of the poor. This happens in the early stages of growth through which India is passing at present. The explanation lies in the shift of population from agriculture to the modern largely industrial sector which grows more rapidly.

(v) Measures to reduce inequality :

Elimination of inequalities in income distribution has been until recently one of the proclaimed objectives of the government in this country. The main thrust of all Plans and policy declarations of the state from time to time have indicated various measures for reducing income inequalities.

1. Land reforms and redistribution of agricultural land :

Income inequalities in the rural sector emanate mainly from the concentration of agricultural land. Various land reform legislations starting from zamindari abolition of 1950 to the ceiling on ownership legislation of 1970s were carried out but unfortunately these measures were inadequate and defective. Their implementation was also scuttled at various levels. Similarly, attempts at tenancy reforms have had the same story of failure as land redistribution attempts. The present land reform programme should be made more effective. Land should belong to the actual tiller.

2. Expansion of the public sector :

Another major instrument to curb income inequalities which has been adopted in this sphere is the progressive expansion of the public sector. Public ownership of some industries and financial institutions with considerable investments have helped in restricting the field of ownership by few in these fields.

3. Control over monopolies and restrictive trade practices :

Control of monopoly tendencies is considered necessary for reducing income inequalities. However, for more than two decades since this country got independence, virtually nothing was done to prevent the growth of monopolies. The Monopolies and Restrictive Trade Practices Act was passed as late as 1969. The Act thus provided for control over monopolies and also for prohibiting restrictive trade practices. In practice, these measures were found rather inadequate and ineffective. Now with the increasing stress on liberalization in the industrial sector, it is very likely that monopoly trends are further strengthened and economic disparities increase.

4. Progressive Tax System :

Fiscal operations are very effective devices to reduce economic inequality. A tax policy is apt to reduce inequality through reducing highest levels. A complementary step lies in public expenditure on social services in the form of free medical aid, free education, slum improvement, poor housing, etc. will benefit the poor more than the rich. This will go a long way in strengthening the economic condition of the weaker sections of the community.

5. Employment and Wage Policies :

Until the Fourth Five Year Plan the employment objective was not taken seriously. However, since the beginning of the Fourth Plan some special programmes have been undertaken such as the crash scheme for Rural Employment, the Drought Prone Areas Programme, self employment schemes for engineers, employment schemes for educated unemployed etc. These programmes were undertaken in an adhoc manner. No doubts these attempts are in the right direction, but the experience at the implementation level in the past has been very disappointing. Thus a large scale employment expansion programme coupled with a policy to check inequitous and unfair wage differentials should be pursued. Policies which minimize unemployment should be expected to reduce inequalities, for example, subsidies doled out to the rural sector can be more efficiently used to create infrastructure and employment in the country side. Finally, the rural and urban poor have to be organized. Their vigilance along can assure that the benefits of various laws, policies and schemes, designed to benefit them do produce their intended effect.

Encouragement to small scale and cottage industries, more emphasis on the development of backward areas, and various anti poverty programmes are some of the measures suggested to reduce inequality in India.

V. Summary

In the present lesson we have learnt that as poverty breeds poverty, economic inequality is apt to breed and perpetuate inequality. Economic inequality causes inequality of opportunity for higher education, technical training, development of innate capabilities and skill and thus perpetuate inequality. Many factors-economic social and political-are responsible for breeding poverty and perpetuating inequalities in India. Various polices and measures have been adopted in India to alleviate poverty and reduce inequality, but limited success has been achieved. A great deal of affirmative action is required on part of the government. The tasks of alleviating poverty and reducing inequality in India today require a revolutionary zeal on part of all the concerned parties. India must improve its human development record in the world human development index.

SUGGESTED QUESTIONS :

1. Define Poverty.Discuss the nature and causes of poverty.
2. What is meant by economic inequality,suggest measures to reduce inequality.

SUGGESTED READINGS

1.	Gaurav Datt and Ashwani Mahajan	:	Datt and Sundharam Indian Economy
2.	Misra and Puri	:	Indian Economy (Use latest editions of these books)
3.	B.P. Tyagi	:	Public Finance

LESSON NO. 2.8

PROBLEM OF UNEMPLOYMENT IN INDIA

Labor is, in general, the most wasted resource in most of the under-developed countries. It has been estimated that unemployment and underemployment in India annually wastes as many gross-man years of labour as is contributed by the entire force of U.S.A. Most of the underdeveloped countries including India are also characterized by large extent of underdevelopment in the rural sector. Though the opinion of the economies, differ regarding the magnitude of the disguised unemployment in these countries but it certainly does add to the large amount of existing open unemployment. Not only that, plenty of technicians and engineers also cannot be absorbed by the economy. Because of low rate of economic development the employment potential of the economy is low. As V.K.R.V. Rao has observed that in underdeveloped economy there are different levels of full employment at different levels of economic growth. On the other hand, existence of a large amount of unemployment and underemployed labour-force kills the incentive to use better and capital-intensive techniques and becomes a hindrance in speedy economic development. Problem of unemployment is, therefore, both a cause and consequence of low rate of economic growth in a country and undoubtedly deserves special attention.

Theoretical Concept of Unemployment

To know the degree of unemployment, we should know what full employment is. One of the most accepted definitions of full employment is given by American Economic Association Committee. Full employment means that qualified people who seek jobs at prevailing wage rate, can find them in productive activities, without considerable delay. It means full time jobs for people who want to work for full time. It does not mean that unemployment is zero. Any deviation from this level can be called unemployment.

There is no unanimity regarding the criteria of unemployment in India, therefore, figures compiled also vary. Prof. Raj Krishna discussed four criteria of unemployment, namely time criterion, income criterion, willingness criterion and productivity criterion.

The time criterion refers to the number of hours or days spent in gainful work. A person is "Severely Unemployed" if he is engaged in more than 22 hours but less than 28 hours a week.

For certain classes of people, the income criterion has to be used. A person may be fully employed in terms of hours that he spends in work but this work may not fetch him enough to rise above the poverty line. Hawkers, petty traders, workers in services or repairs shops etc. in urban areas and some type of labourers in rural areas come under this category.

There is another class of people, which can not be included in the category of fully employed people. "If a person is forced by unemployment to take a job that he thinks is not adequate for his purpose, or not commensurate with his training", he can not be included in the category of fully employed person. Similarly, lots of people, in the towns and cities particularly, remain unemployed and depend on others because they cannot get job according to their status or qualification or training. This is called willingness for recognition criterion.

Then there is the well-known category of self-employed people mainly in rural areas engaged in joint family farming and also petty trade and cottage industry whose output is less than (and at times zero) what he can produce by working normal hours a day. This is called by Ragnar Nurkse "Disguised Unemployment" and is referred to as productivity criterion.

Whatever the definition adopted and criterion used, while collecting the unemployment figures, the figures are alarming.

Types of Unemployment

1. Frictional Unemployment : The first type is the frictional unemployment. The classical economists explained the existence of unemployment with reference to demand and supply condition of labour. Under free competition, under full equilibrium conditions, there can be no unemployment. Frictional unemployment can, however, be there. The frictional unemployment results due to shifts in the demand for labour and consequent temporary maladjustment in the condition of demand for and supply of labour. For example, people may be out of job because of breakdown of machinery, temporary storage of some raw material etc. But in a dynamic economy new vistas of employment keep appearing and also some old employment opportunities keep contracting because of extinction of some old forms of production and emergence of the new ones. People keep training themselves for new jobs and wait to be employed in the new forms of production. An employment of 2% to 3% cannot, therefore be ruled out even under classical full employment condition. But there is nothing to worry about such employment. This infact, is a healthy sign of a growing economy.

2. Technological Unemployment : Another type of unemployment is technological unemployment. As the technique of production keeps changing and the rationalization of industries takes place, some labour becomes unemployed. Any country if it wants to develop and move from primitive to modern techniques, has to face this type of unemployment.

3. Structural Unemployment : Structural unemployment arises either because of structural changes or because of structural imbalances in the economy. Unemployment that may get created because of decrease in the flow of foreign trade in the country can be an example of unemployment because of structural imbalances. We have abundance of unskilled labour, whereas capital, technical know how, some types of skilled workers and efficient entrepreneurs are in scarce supply. It is this type of imbalance that cause unemployment of labour and is the most characteristic feature of under-developed countries. Structural unemployment manifests itself in the form of seasonal unemployment, disguised unemployment or simple open unemployment.

4. Seasonal unemployment : It exists to smaller or greater degree in almost all economies, even in those who may not have any significant extent of unemployment because of the very nature of certain unemployment. This problem becomes more serious because there is a shortage of employment opportunities of labour in the slack season both in self-employment and in finding employment with an employer. Another form that this structural employment may take is the perennial under-employment.

5. Under employment : It exists when persons in employment not working full time, would be able to and willing to do more than they are actually performing or when the income or production of persons in employment would be raised if they worked under improved conditions of work were transferred to another occupation. This can generally be seen in the form of petty trades in urban areas and in agriculture in the rural areas. An extreme form of this underemployment is disguised unemployment.

6. Disguised unemployment : It was coined by Mrs. Robinson and later popularized by many economists like Nurkse, Arthur Lewis and Rosentein Rodan etc. Disguised unemployment is said to exist when the same farm output could be obtained with a smaller labour force without any change in the method of population. In other words, the marginal productivity of labour is zero and even negative at times. The third form that this structural unemployment takes is the form of open unemployment of able bodied, willing workers, educated and unskilled, looking for employment and dependent on other members of the society, come in this category:

Nature of Unemployment in India

The analysis of the nature of unemployment in India is necessary to find out a suitable solution for it.

Frictional unemployment exists in India as in any other country. After the second world war, when war time industries were being closed, there was a good deal of frictional unemployment caused by retrenchment in the Army and Ordinance factories etc. but frictional unemployment does not account for a major part of employment in India.

Cyclical unemployment is more a phenomenon of an industrial and advanced country where the organized sector is very large. In those countries any measure to raise the level of effective demand will raise the level of employment but they may only raise the level of prices in a country like India, the reason being the shortage of machinery and other co-operating factors. The instance of cyclical unemployment can be found in India also. The depression of 1930's did effect the employment situation in India. But unemployment in India is not mainly of cyclical nature.

Technological unemployment does exist in India as in any other developing country. The process of rationalization which started in India since 1950 has caused displacement of labour. But if the economy has reasonable quantities of the various inputs of agriculture and industry, the expansion of the existing production capacities and emergence of new ones absorb this displaced labour after a short period of frictional unemployment. Therefore, the pilling mass unemployment cannot be mainly because of the technological reasons. Infact, the unemployment is hindering technological advancement of the country.

Due to high rate of growth of population, the labour force has been correspondingly increasing. Inspite of the development efforts under various plans, structural unemployment manifests itself in all its three forms.We are still using primitive techniques in agriculture and most of the people engaged in agriculture remain unoccupied for upon seven months a year Because of insufficient development of subsidiary occupations like dairy farming, cottage industry etc. on a considerable scale and well organized basis, the slack season can not be properly utilized for increasing income and output. Decay of handicrafts has also led to the increase in seasonal unemployment in India.

The lack of employment opportunities also lead to able-bodied people taking jobs on part time basis.

Besides this type of under-employment,for the majority of the Indian under-employment is of the nature of disguised unemployment. Because of lack of sufficient growth of industrial and territory sectors in the urban areas, the employment opportunities remain limited there. This leads to a chain reaction. Lack of opportunity in the urban areas further encourages immobility of labour which is already there in an underdeveloped country because of various other factors. This leads to preponderance of unskilled manual workers in the rural areas. Since the development of the rural industries is not sufficient due to lack of complementary factors of production, to provide alternative employment to surplus labourers, leads to heavy pressure of population, on land and, therefore, to subsistence farming. Under such conditions the earning of the people employed, in other words, the marginal productivity of labour is very low or zero and at times even negative. This type of under-employment has been termed by economists as disguised unemployment.

Besides the disguised unemployment there is mass of open unemployment consisting of unemployment among industrial workers and unemployment among the educated middle class. Because of urbanization and expansion of population among the urban working class who has already broken its rural entracts, there has been considerable increase in the size of the labour force seeking employment in the urban areas. During the slack season, villagers seeking temporary job in the nearby urban areas add to urban employment, sufficient resources are not forthcoming for the establishment and expansion of small and large industry in the urban areas, giving rise to unemployment among the industrial workers. Besides this, even the educated class suffers from the lack of employment opportunities. With the speed of liberal education both at secondary and university stage, the number of educated is on the increase.

Magnitude of Unemployment

Various committees and bodies have estimated the size of unemployment in India and have given varying figures-depending on the definition of unemployment and methods of estimation and investigation.

According to the Dantwala Committee, in an economy like this there is very little open or outright employment, but there would be considerable seasonable unemployment and or underemployment. "The Committee does not like to add the large figure of disguised unemployment and underemployment and mix them with outright unemployment."

Because of both concept and statistical difficulties no dependable quantitative estimate of the magnitude of unemployment are available with any of the concerned agencies like Planning Commission census reports, Director General of Employment and Training or national sample etc. But it will not be out of place to study some of the records available. These at least give us a glimpse of the general trend.

At the beginning of First Plan, there was a 3.3 million estimated unemployment backlog. About 9 million were estimated to be net addition to labour force, making a total of 12.3 million wanting jobs during the plan period. The plan could provide only 7 million wanting jobs during the plan period. The plan could provide only 7 million jobs, leaving a backlog of 5.3 million for the second plan. Addition to the labour force was estimated to be 12 million persons during second plan, making a total plan of 17.2 million wanting jobs. Calculation made by the Reserve Bank of India, showed 10 million at the beginning of third plan. Addition to labour force during third plan was estimated by Planning Commission to be 17 million making a total job requirement of 24.3 million. Third Plan created only 14.5 million additional jobs, the backlog at the end of Third Plan was therefore 9.8 million. According to Reserve Bank of India's estimates, the number of new entrants to the labour force during the period of three annual plans in between the Third and Fourth Plan was 14 million. Adding the backlog of 9.8 million, it made a total job requirement of 23.8 million during the annual plan period. Only about 1 million jobs were created during this period leaving a backlog of 22.8 million for the Fourth Plan. The addition to the labour force during Fourth Plan was about 21 million. According to Ministry of Labour and Employment. Government of India, the number of employed was of the order of 12 to 14 million. In line with the suggestion made by the Dantwala Committee, no specific mention was made of targets for creation of employment during the Fourth and Fifth Plans. The accurate backlog of unemployment persons was also not available. The committee suggested the change in the statistical method used for assessment of employment. National Survey (1972-73) estimated total unemployment underemployment at 20.4 millions. This appears to be an under-estimate.

In the Draft Sixth Plan (1978-79), the Planning Commission estimated the existing level of underemployment and the future trend. This was done with revised concepts. Millions of people in India get some work for some weeks and months and remain idle for the rest of the period in the year. Therefore, the number of people chronically unemployed is very small. The figure was placed at 4.4 million out of total labour force of 265.3 million. The bigger problem is the disguised unemployment and underemployment. The Planning Commission, therefore tried of calculation unemployment on the basis of "weekly unemployment" and person day unemployment. Since lots of people remain unemployed for weeks together, it is better to measure employment in person day terms. Working on the basis of 1973 NSS survey, the Planning Commission estimated that in April 1978, unemployment was at 0.6 person years - 165 million in rural areas and 41 millions in urban areas. On the basis of this estimate, unemployment was about 8-9% of the total labour force. The CDS (current daily status, which measures employment in person days) unemployment rate was 7.3% in 1999-2000, but reduced to 5.6% in 2011-12.

Urgency of the Problem

Increase in unemployment of the above magnitude affects the entire life style of a country.

Unemployment and underemployment lead to poverty. This makes the labour force physically and mentally weak. Poverty affects the capability to the coming generation of workers. This is a great economic loss. The destruction of rural and urban properties caused by the lawlessness amongst the rural and urban people because of their frustration due to unemployment is another national loss. Besides that there is great economic loss of the country of a large potential wealth. Even at limited efficient levels this lot of unemployed masses can be a source of capital formation as many economists have attempted to demonstrate. The economic unemployment for a developing country like India can, therefore, not be ignored.

Unemployment in any form whether in agriculture, industry or amongst the educated classes has due social consequences too. The feeling of helplessness amongst unemployed and underemployed people in agriculture leads to agrarian unrest, the instances of which are not lacking in Indian history. It either creates lawlessness in the villages or the migration of discontented masses to the urban slums which are potential breeding ground for anti-social activities. The industrial unemployment ideals to industrial unrest bringing about mass poverty, disease and social degeneration in the form of crime and vice. The most alarming are the social repercussions of the educated unemployed. Young men and women acquire education considering it is a source of livelihood and therefore purposeful existence. But after completion of their education when they do not find work for themselves, they become frustrated and have a feeling of redundancy that is, of society having no use for them. This encourages them to join the anti-social elements. The political consequences of unemployment too cannot be ignored in a democratic country like India. India has adopted in her constitution as a Directive Principle of state policy that all citizens have the right to adequate means of livelihood. The society in denying the citizens their right by not providing them enough employment opportunities. The frustrated unemployed both educated and uneducated are very often misdirected and misutilized by the political parties for the country. Thus, unemployment is getting at the very roots of the political stability of the country.

Therefore, the problem of unemployment is not only economic. It has far-reaching social and political consequences for the economy. Therefore, if we want the Indian economy to progress urgent and effective steps will have to be taken on a war footing to solve this problem. It has thus become “Enemy Number One” for India.

REMEDIAL MEASURES

The “number one enemy” has to be tackled on two fronts. On the one hand we have to reduce the number of fresh entrants to the labour force by having a suitable population policy and on the other, we have to make efforts to increase the employment opportunities by broadening the production base and establishing productive enterprises in rural and urban areas.

The size of labour wanting employment in a country is directly dependent upon the size and composition of the population in that country. Though composition does effect the size of labour force but more important is the size of population growth of India’s population, seems to be the biggest factor-contributing to the rate of the unemployment. The results of economic growth are eaten away by the population growth and the number of unemployed instead of decreasing actually increase. Not only that this becomes a hurdle in the efforts create further employment opportunities. For example, to broaden our industrial base and to create output and employment in the industrial sector of both skilled and unskilled labour we need to import certain things and for that we need foreign exchange. To earn foreign exchange a developing country has to export primary and semi-manufactured goods at competitive prices. Unless we use the improved technology in agriculture, we cannot produce and sell these things at competitive prices. But as long as there is pressure of population on land there is open and disguised unemployment in agriculture, the improved technologies serve no purpose.

Therefore, unless a suitable population policy with methods of concrete checking the rate of population growth is adopted, the problem of unemployment with all its consequent effects, will always keep counter balancing our development efforts. Therefore, various steps to check the rate of growth of population have to be adopted.

Remedial measures for rural unemployment

The largest share of unemployment in India goes to the rural sector. Underemployment and wage-employment is often accompanied by spells of unemployment because of small size of holding, seasonal creations and lack of adequate alternative avenues of employment. To solve the seasonal unemployment in agriculture, we have to revive handicrafts and encourage cottage industries like khadi and making of other small items. Besides, this we have to encourage and help them start subsidiary occupation like dairy farming, poultry, breading, bee keeping, fish culture and semi processing of primary products etc. by giving them technical help. Rural works programme consisting of a host activities like building of rural infrastructure – consisting of road building. Canal digging and provision of past facilities like drinking water schemes and building of schools, health centres etc. and also other activities connected with rural economic development like soil conservation, afforestation etc. can all provide gainful employment to the rural people during the slack season. ‘Food for work programme’ was one step in this direction.

Some construction and other economically useful activities can continue throughout the year to reduce unemployment of the self-employed and unemployed of some agriculture labour. The availability of alternative employment will also push up the wage rate of landless agriculture laborers who are often exploited by the rich landlord and who can be called under-employed not in the sense of number of working hours put in but in the sense that they earn so low that inspite of working full time, many of them remain below the poverty line. Mr. Ashok Mitra and Mr. Jyotimony Basu in their notes on the Bhagwati Committee Report, recommended the creation of Central Employment. Fund, to be contributed regularly by the Centre and State Government, private and public undertakings and the Nationalised Banks. The fund can be used to create gainful employment opportunities for the willing, sub-bodied unemployed workers. The urban unemployed can be employed in the supervisory and guidance capacities. The rate of contribution and details of programmes can also be worked out. This appears to be a sound suggestion. To reduce the number of people of one employment category in the rural areas various land legislation acts and tenancy reforms can be enforced about which Govt. is quite conscious but what lacks is the will to strictly enforce them.

The extension of employment opportunities within the villages will be cumulative. A direct consequence of this will be the fall in the unemployment levels of urban un-skilled workers. As Prof. Dandekar and Rath in their study on the "Problem of Poverty in India" have mentioned that urban poverty is only an overflow of rural poverty, so the increase in employment opportunities in the rural areas is also a solution of rural unemployment as well as urban unemployment.

Remedial measures for urban unemployment

Various steps that can be taken to remedy the industrial unemployment in the urban areas are as follows : Firstly, adoption of labour intensive technology in industries other than basic and heavy industries like iron and steel, defence, chemical generation, oil installations, machinery etc. where the productivity is not significantly effected. Efforts should also be made to adopt the imported technologies to the country's resource endowments. Secondly, the encouragement should be given to small scale industrial enterprises both as subsidiary to large industries and as independent unit, Government is quite aware of the employment potential of the small sector. Various steps that can be taken and are being taken to encourage this sector are reservation of some commodities purely for this sector, the Govt. purchase of some commodities entirely from the small scale sector, establishment of industrial estates, provision of cheap and easy credit etc. Small scale industries also help in the disposal of employment opportunities and involve less mobility of labour. Also linking up of small scale industries as ancillaries to large scale industrial units will reduce the cost of production of big industries unit, since they can buy ancillary products at cheaper rates and will expand employment/opportunities. Government, therefore, has to take steps to remove the various bottlenecks like power supply, raw-material, transport and foreign exchange etc. on a war footing to remove the obstacles in full utilisation of industrial capacity.

Measures for educated unemployed

Another type of unemployment that is a great cause of concern is the educated unemployed in India. Lingering unemployment amongst the educated class is not only an economic evil but can turn out to be a great social problem endangering the stability of any Government. The number of educated unemployed increased from 5.9 lakhs in 1961 to 51 lakhs in 1976. Another factor that has to be observed is that the percentage of unemployed amongst graduates and postgraduates is increasing whereas the percentage of matriculates is decreasing. In 1976, there were over 18400 unemployed engineers in India. On the other hand, there is a shortage of some types of skilled personnel like electricians, fitters, moulders etc. The existence of educated unemployment is partly the result of education system which is highly loaded in favour of liberal or general education and partly the result of low rate of economic development leading to insufficient employment opportunities for the educated and technical people. To solve the problem of educated unemployed and hasten the pace of economic development it is necessary to step up the rate of investment and remove the bottleneck on production. First, liberal education should only be provided up to the middle standard and thereafter the vocational secondary education should be imparted so that after secondary education most of the people can take up jobs. Also for vocationalisation the institution should be associated with factories. Second, college and university education should only be open to those who have attained very high academic standards. Thirdly, the intake of technical institutions preparing people for engineering, medical, administrative and other commercial and technical jobs should be governed by proper manpower planning, keeping in mind the requirement of such people at different times.

To assist all types of unemployed, employment exchange with vocational guidance and employment counseling facilities should be established. These should be compulsorily linked with all private and public institutions. Compulsory publication of employment news in various employment journals and news can also help. Government is taking steps in this direction. How much will be achieved depend upon the zeal with which they are implemented.

Steps taken during various plan periods

The **first five year plan** was designed to correct imbalance in the economy caused by second world war and post-war conditions and much priority was not given to the solution of unemployment problems. By 1953 when the post war conditions were over and the employment situations deteriorated the government itself realized the insufficiency of the measures to increase employment opportunities. The total outlay in the public sector was increased by Rs. 309 crores i.e. from Rs. 2069 crores to Rs. 2378 crores to finance the additional projects having considerable employment opportunities. Towards the end of 1953, the government announced eleven point programme to relieve unemployment consisting of : (i) Establishment of work and training camps at places near irrigation and power projects and construction works for providing opportunities; (ii) Special assistance to give to individual or small groups of people for establishing small industries and business; (iii) training facilities to be expanded in those lines in which manpower storage at present exists; (iv) Active encouragement to be given to the products of cottage and small scale industries through sympathetic store purchase policy by public authorities; (v) As large a number as possible adult schools in towns and one-teacher schools in villages to be opened; (vi) National Extension Service to be rapidly extended because it contains great employment potential; (vii) Road transport to be developed; (viii) Slum clearance schemes and programmes for construction of houses for low income group in the urban areas to be implemented; (ix) Private building activities to be encouraged. (x) The First Five Year Plan to be suitably modified in order to give preference to these programmes which have immense employment potentially. Governmetn also announced in September 1953 a special education expansion programme to provide employment to the educated unemployed.

The measure however could not go very far in solving the unemployment problem in the long run the First plan left a backlog of under employment of 5.3 million.

In the beginning of **Second Five Year Plan** it was realized that the risk of creating employment opportunities cannot be separated from the investment programmes in the plan. It was however, decided to pay particular attention to maximize the enjoyment potential of projects included in the plan. The plan incidentally, was in favour of heavy industry where the techniques are generally capital intensive. Efforts were made to increase employment in the rural areas through irrigation schemes and programmes to develop small scale industries. The Planning Commission set up in 1955 a special study group to formulate programmes especially designed to address unemployment among the educated. The Labour Ministry drew up schemes to provide part-time work to the educated unemployed. Orientation courses for providing training to people for traders like linesman, fitters, electricians etc. were started.

One of the explicit objectives of the **Third Plan** was to utilize to the fullest possible extent the manpower resources of the country and to ensure a substantial expansion in employment opportunities. The Sino-Indo conflict in 1962, Indo-Pakistan hostilities and inclement weather in the last of the plan and consequently the problems arising out of rising prices insufficient food, wide foreign exchange gap etc. hindered the achievements of plan objectives but still the Third Plan succeeded in creating 14.5 million jobs. But since the new entrants of the labour total employment at the end of the Third Plan turned out to be 9.5 million.

Only one million jobs could be created during **three annual plans** because this was a period of crisis for the Indian Economy. The economy was in the grip of recession during 1966-68 and therefore, obviously not many employment opportunities could be created. The backlog of unemployment at the beginning of the Fourth Plan was therefore between 22 and 23 million persons.

Unlike the earlier Plan there was no specific mention of the targets for creation of employment opportunities in the Fourth Plan. But one of the major objectives of the Fourth Plan was to create more employment opportunities in the rural and urban sectors to absorb the entire labour force. In the rural areas this was to be achieved through intensive schemes such as minor irrigation, soil-conservation etc. It was also stated in the Plan that according to recent experience, employment in the manufacturing industry played a crucial role in determining the volume of urban employment. In April, 1971, the government announced a Rs. 50 crores cash programme for creating rural employment. The cash programme aimed at providing jobs to 1000 people for 10 months in a year in every district, working on projects like roads, drains, minor irrigation etc. One individual was to get a maximum of Rs. 100/- a month. Actually, Rs. 100 crores were provided for this programme.

Employment situation got revised during the **Fourth Plan**. The annual growth of employment during the Fourth Plan in public sector was 4.4 percent and in the private organized sector was only 0.8 percent.

Nationalisation of 14 commercial banks in 1969 and takeover of the entire cooking coal mines in 1972 and takeover of 3 sick textile mills was partially responsible for apparent better performance of the public sector.

Like the Fourth Plan, the **Fifth Plan** also did not mention special targets for creation of employment opportunities but the expansion of productivity employment was one of the important objectives of the plan. Following the production oriented approach it was stated in the plan document that in the Indian situation, possibilities of creating substantial additional wage employment by changing the product pattern of manufactured goods in the labour intensive direction in the organized sector of the economy appear to be rather limited. However sufficient emphasis was not laid in terms of the outlay. The target in the sectors of mining, construction, electricity, railways etc. also were expected to generate substantial employment. It would be reasonable to conclude that the Fifth Plan objective to wipe out backlog of unemployment by the end of the Fifth Plan had remain unfilled.

The Janata Government terminated the Fifth Plan a year earlier and the **draft of Sixth Plan** (1978-83) was presented to the public. The focus of this plan was the employment objective. One of the principle objectives of the plan was removal of unemployment and underemployment. For this purpose, the elements of strategy included (a) enlargement of employment potential in agriculture and allied activities, (b) encouragement to household and small industries producing consumer goods for mass consumption (c) to foster area planning for integrated rural development, (d) to raise the incomes of the lowest income classes. The plan purpose was to implement revised minimum needs programme. The expansion of infrastructure and social service i.e. road construction, electrification, water supply, rural school and community health schemes, besides irrigation power and house programmes was to help generate massive employment through expansion in construction activity and their secondary and tertiary effects in raising agricultural productivity and incomes of the poor.

The **Revised Sixth Plan** (1978-83) estimated the creation of 43.63 million man years of employment within the plan period. Out of this, 14.74 million man years of employment (31.6 percent of total) were to be created in agriculture and allied sectors, 9.6 million man years (20.6 percent) mining and manufacturing (including cottage industries) and 22.28 million man years (47.8 percent) in construction and services.

The Plan document has outlined the creation of employment amounting to 46.63 million person-years during 1978-83. To create gainful employment in the rural areas 'Food for work programme' was also started where the wages were paid partly in cash and partly in items of food grains. Thus, the employment policies of the Sixth Plan (1978-83) were laudable but the preoccupation of the Government with political matters led to the lack of political will on the part of the government to provide adequate supporting measure to implement the well thought out ideas.

In the **Seventh Plan**, the magnitude of employment requirement was worked out to be 47.58 million. "It is expected that additional employment of the order of 40.36 million standard person years would be generated during the seventh plan with implied growth of 3.99% per annum. The special employment of NREP and RLEGP would generate 2.26 million standard person year of employment in 1989-90. The employment generation from IRP has been estimated at 3 million standard person years (SPYs) mainly concentrated in agricultural and others sectors."

The Planning Commission used data of National Sample Survey (NSS) for making projection for Eight Plan and onwards. Taking 28 million of has backlog of unemployed in 1990, net additions to the labour force during 1990-95 are expected to be 37 million. Thus, the total number of persons requiring employment during the Eighth Plan would be 65 million approximately. It is expected that during 1995-2000, labour force would increase by 41 million.

The approach paper of **eighth plan** expected 3 percent growth of employment as its goal for 1990-95. This appeared to be realisable goal if a proper employment oriented strategy was developed.

In the context of employment generation the **Ninth Plan** stated that it was not enough to merely create the right kind of employment opportunities, but also to provide the people with human capital by which they can take advantage of these opportunities. Special programmes were to be implemented to develop skills, enhance technological levels and provide marketing channels for people engaged in traditional occupations.

The **Tenth Plan** sought to adopt a development strategy which would result in rapid growth of those sectors where the comparative advantage lies in labour intensive nature of production. The Plan aims at providing gainful employment opportunities to the entire additions to labour force during the Plan and beyond. For this, the Plan programme will foucs on sectors that offer greater employment potential which can be better utilized by adopting appropriate policies and procedures.

The Eleventh FYP (2007-12) aimed at creating 58 million job opportunities. The Plan argued that while self employment would remain an important employment category in the foreseeable future, there was need to increase the share of regular employees in total employment. However, the Plan failed miserably in meeting the target of generating 58 million jobs. **The Twelfth Plan (2012-17)** proposed to create 50 million non farm employment opportunities and provide skill certification to at least an equivalent number of people. However, the Plan could not be completed due to replacement of Planning Commission by NITI Aayog in 2015.

A Note on the Food for Work Programme : After Janata Party came in to power, it was realized that there was buffer-stock of 20 million tonnes of food-grains. It was decided that this huge stock of foodgrains should be used to reduce unemployment and accelerate the process of economic growth. Food for work programme was therefore introduced in 1977-78. The objectives of the programme were generation of useful employment in the rural areas,to produce social infrastructure so that the rate of economic growth can be accelerated and utilizing the surplus foodgrains to reduce unemployment and poverty.

Foodgrains were used as a whole or part payment for the services rendered in the execution of projects concerned under the programme. The Central Government makes allocation of food grains to the state Governments to supplement their resources. On the village level Panchayat Samitis and Zila Parishads were authorized to implement the scheme.

It has been observed that on a average about 50 percent of the Central Government allocations of foodgrains have been utilized by the State Government. That shows the lack of political will, when it comes to actually implementing the programmes of economic development and employment generation.

The Planning Commission carried out a study of evaluate the programme. Some of the observations were : (a) 50.6 percent of the beneficiaries were agricultural laboures and 19.6 percent were non-agricultural labourers, that is 70 percent beneficiaries were labour household, (b) 80 percent of the beneficiaries were male and 20 percent were female, (c) As a consequence of the food for work programme, the income of the beneficiary households increased by 17.7 percent in the selected district, (d) The overall increase in employment was of the order of 10.9 percent, (e) A total employment of 3.7 lakh man days was generated, (f) Total community assets worth Rs. 421 lakh were created which included payment of streets, schools, buildings, dispensaries, internal drainage, drinking water wells, repair of minor irrigation works, flood protection funds, plantation work in forest areas digging of ponds, building of Harijan Chaupals, (g) Food for work component worked out about 60 percent and remaining was paid in the form of wages, (h) some non-traditional occupations have been started to help the growth of small scale industries.

The programme, though a sound step in the right direction, was first too small in magnitude to decorate a significant impact and sound, was not conceived as a part of the programmers integrated rural development and did not generate permanent avenues of employment. Therefore, by and large, it failed to create a significant impact. It has been suggested that some other essential items besides foodgrains should also be included in the programme. The Congress (I) Government modified it and called it National Rural Employment Programme (NREP).

A Note on Employment and Choice of Technology

For many purposes an economic system may be viewed as a bundle of decisions like what commodities and service to produce. The question of technology is one of the key decisions for a developing economy particularly the one characterized by a high rate of population growth and therefore surplus man-power.

In the context of a developing country like India, there are few points that need clarification for policy formation. Firstly does economic growth bring more output and employment, as is generally believed ?

In Britain in 1970-71, output in all production industries increased by 2 percent but employment went down by 5.5 percent. This phenomenon in industries is not only there in developed countries but it is also there in underdeveloped countries. Obviously it is the choice of technology that causes it. The choice in developed countries may be governed by the resource endowments in those countries but developing countries have this phenomenon because of their desire to develop through technology imported from the development countries, which generally use capital intensive techniques. Besides that output may also increase in developing country because of better utilisation of inputs particularly management but it may not necessarily increase employment.

Secondly, it is suggested by some people that capital intensive production is conductive to higher rate of saving and investment and also labour intensive units use more capital per unit of output. Empirical evidence has proved that even this may not be so. A survey conducted for India shows that value added per unit to fixed capital was appreciably lower in the case of highly capital intensive industries like petroleum refining; iron and steel, heavy chemicals etc., than in labour intensive industries like manufacture of footwear, leather products, rice milling, tobacco, printing and publishing, cotton and jute textiles etc. Even the argument of more saving and more investment by capital-intensive industries has been disproved by the study conducted on various countries, it is suggested that the rate of possibility in, capital intensive industries is higher, but a study conducted for Delhi showed just the opposite.

Studies conducted for India, regarding output and employment generation after the beginning of industralisation with the Second Five Year Plan, reveal certain facts. Firstly in the manufacturing goods sector the output has grown at a faster rate than the employment. Secondly, because of emphasis on heavy industry sector, it has grown faster than the output of light industries. Thirdly, because of the less chance of variation of technique in the heavy industries sector, in India the employment has not grown in proportion with output Mr. M.M. Mehta after his survey of trends of output and employment in India says that employment output ratio in the manufacturing sector has declined for two reasons. Firstly, the capacity of the manufacturing sector to generate direct new employment opportunities has considerably slowed down as a result of modernization process, capital intensive character of new investment and significant advance of the productivity front. Secondly, the marked shift in the pattern of industrial output from light in favour of heavy manufactures has further tended to lower the employment generating effects of industrialisation.

Thirdly, even if these improved techniques means more output and faster rate of economic growth, is it desirable to have these modern techniques with the existence of large amount of surplus manpower with all its social, political and economic consequences ? View differs on this and developing countries of today are generally faced with this controversy. India is one such case. But the general consensus of the economists is that the problem of unemployment can not be ignored at any cost. Therefore besides heavy industries for which not much of choice of technology is available, we have to encourage small-scale labour-intensive industries in a big way. The argument applies equally well to agriculture.

Inspite of awareness of the magnitude of unemployment and its consequences of a developing country like ours, we have not been able to effectively tackle the problem of unemployment in India. We have not been able to bring down the rate of population to anywhere near the desirable figure. We have also not been able to step up the rate of investment to the level at which most of our labour forces can be gainfully employed in the organized sector. In the absence of this happy situation, the most suitable alternative is the development of a decentralized economy beside the large force can be organized sector. By the decentralization we mean village economy should be developed. The development of cottage and small scale industry in the village in the form of production of handicrafts and textiles, utilistion of agriculture by products, processing of fruit and vegetables, repair shops for repairing agricultural machinery etc. encouragement of feeder industries like bee-keeping, poultry farming, dairy farming etc. can all help to revitalize the rural economy and reduce unemployment. The state should help in the form of providing infrastructural facilities for the development of the rural areas. Gandhi Ji said, “the cowdung villages of today are to be tiny gardens of Eden tomorrow.” This will discourage exodus of people to the urban areas. To avoid unemployment of the educated people, we have to restructure our education system in such a way that the middle school qualified people, having general education should be trained to settle down in the villages and earn a reasonable livelihood. The secondary education should be vocationalised and such institutions be linked with the factories so that these people can be absorbed in research and education institutions etc. The requirements of technical personnel should be tailored to the needs of organized sector. This does not mean that government during various plan periods has not taken the steps in the right direction nor does it mean that no success has been achieved but what is lacking is the political will to reinforce things and carry them our effectively. Unless we change the socio-economic set up and effectively implement the policies that we make, keeping in mind the objectives set before us, the desired result can not be achieved. For this we require a dedicated task force of people who should commit themselves for achieving result and this, though not impossible, is a difficult task for a democratic socialistic set-up like ours.

SUGGESTED QUESTIONS :

1. Define :
   - (i) educated unemployed
   - (ii) disguised unemployed
   - (iii) seasonal unemployment
   - (iv) frictional unemployment

2. Discuss the measures to solve the problem of unemployment.

SUGGESTED READINGS

1. Gaurav Datt and Ashwani Mahajan : Datt and Sundharam Indian Economy
2. Misra and Puri : Indian Economy
(Use latest editions of these books)
3. B.P. Tyagi : Public Finance

LESSON NO. 2.9

PROBLEM OF INFLATION IN INDIA

Introduction

Inflation is a complex problem. Every rise in price cannot be called inflation. The persistent rise in prices since 1951 has become as matter of serious concern for the country. It will not only affect the planned programme for development but it also provides a threat to all the achievements and cherished goals of the country. In fact, inflation is one of the greatest cherished goals of the country. The Sixth Plan identified inflationary pressure of economy as the cancer which is eating into our economy. Serious imbalances with wider socio-economic ramifications are ample evidence to prove the extent of damage already done. However, these imbalances are not overnight creations. They have been building up over a long, period of time. In this lesson we shall study the price rise before and after 1951, the causes and consequences of rise in prices and steps taken by the Government to tackle the ever rising price spiral.

Price Situation in India

The price situation in India can be studied under two broad categories of period viz.

(i) Price rise before 1951; and

(ii) Price rise after 1951

(i) Pre-1951 Price Rise : The story of inflation, more properly, the fight against inflation should begin from 1943. This was a period when the Second World War was going on. Japanese had over run the pacific countries and were threatening the North-East Frontier of India. The allies were anxious to drive the Japanese back and India, thus, became the base of operations for allies. Large quantities of materials required for war were mobilized in the country. All these operations involved plenty of expenditure which had to be in rupee in the first instance. This expenditure had to be met by deficit financing as there was no other method of raising the finances in such a short period. By the end of 1942 inevitable consequences of this move were apparent-there was increase in prices. The volume of the currency notes in circulating in 1938-39 was only Rs. 182 crores. By 1945-46, this had increased to over Rs. 1160 crores, an increase or 600 percent. The volume of bank deposits for what is commonly known as bank money, rose correspondingly. Majority of the people were not in a position to understand the sudden and continuous spurt in prices week after week. Over the war period, as a whole, the general price level rose by 143 percent, the increase being more pronounced in the case of food articles, export commodities and agriculture products in general. A massive increase in prices was presented by extensive controls which suppressed the inflationary pressure for the time being.

However, after the end of the World War II, the supposed inflation burst into open inflation under the impact of the pent up demand, prices began to shoot up at an alarmingly high rate.Coupled with this was storage of industrial goods due to depletion of equipment/during the push to prices. These factor were (i) the economic consequences of the division of the country in 1947 leading to influx of people from Pakistan; (ii) the removal of price control and the consequent spurt of prices in the wake of decontrol; (iii) devaluation of rupee in September 1949 and the rise in the prices soon afterwards; (iv) the Korean war in June 1950 and the rise in the international prices because of the stock piling of essential goods; and (v) natural growth of population leading to persistent increase in demand for goods and services.

(ii) Post-1951 Price Rise : Except for the First Five Year Plan period when there was a slight fall in prices, the Indian economy has been plagued since 1951with rising prices of varying intensity, with some dips here and there. The phenomenon of price rise originated during the Second Five Year Plan although the growth rate was small at 3.2 percent per annum. In the years that followed, there was an acceleration in the rise of prices with 8.5 per cent annual rise of the Third Five Year Plan : 7.8 percent for three year annual plans (1966-69) and 9.6 percent for the Fourth Plan (1969-74).

The phenomenon of price rise however, continued with large ups in certain years and slight downs in a few years, giving in the end an upward trend to serious magnitude One was in 1974-75, when the annual rate of changing in the wholesale price index moved up sharply by 258.2 percent over the previous years. Another was in the year 1978-79 with the index over 167 percent over the last year over the previous years. In March 1981, the increase in Price Index over the last year was almost the same at 164 percent. There were also smaller rises over previous years. However, taking the overall, there was an unmistakable uptrend. Even in the Economic Survey for 1981-82, the Government conceded an increase of about 8 percent hoping to bring down the rate still further. The general trend is evident from the wholesale price Index (1970-71-100) which moved from 108.2 in the last week of 1972-73 to 270 on 28-03-1981.

The Indian economy experienced a remarkable price stability during the two year period 1977-79. The stability was the result of divergent movements in the price of agricultural and agricultural based commodities on the one hand and industrial commodities on the other. There were two good harvests, which led to a fall in the agricultural prices, particularly in the case of fruits and vegetables, raw materials, raw cotton and oilseeds. By contrast, prices, of industrial commodities and fuels rose through the years. The stability on the overall index reflects in the fact that deadline in agricultural and agricultural based commodities affect the moderate rise in the rest of the economy. The inflationary upsurge was initially triggered by sharply rising prices of sugar, khandsari and gur, edible oils fruits and vegetables. Prices of iron and steel were raised in April 1979 and July 1979 respectively. The sharp increase in imported crude oil prices led to an increase in price of petroleum products. Wholesale price Index went up by 21 percent during the year. Fiscal and monetary factors continued to exert their pressure. The economy was behest with supply constraints. The forces underlying the inflation of 1979-80 continued to exert their pressure during the first half of 1980-91. However, since then there was slight deceleration. The wholsale price index increased by 8.2 percent in the first quarter and by 5.7 percent during the second quarter. In the third quarter it declined by 3.5 percent compared with a rise of 2 percent during the second quarter. In the third quarter it decline by 3.5 percent compared with a rise of 2 percent during the year.

During the Eighties, inflation was the main problem before the Govt. The Whole Sale Price Index (WPI) rose by 38 percent in 1980-81 (an increase of 17.5% over the previous year). Though during 1982-83 price stability was achieved but it was short-lived. Prices of certain items like pulses, oil seeds and food stuffs increased which had a spiral effect on the prices in the whole economy.

In the 7th plan the WPI rose to 167 and the annual rate of inflation from 4.7% in 1985-86 to 8.1% in 1989-90. Further after 1990, it is noted that the inflation was mainly govt. funded e.g. due to rise in administered prices and rise in indirect taxes. Besides, there was unprecedented jump in the prices of the petroleum products. In 1990-91 annual rate of inflation became as high as 11.2% .It was 7.5% in 2012-13.

Causes for rise in Price Since 1951

Factors responsible for price rise are :

(a) Demand Pull Factors

(b) Cost Push Factors ; and

(c) General Factors.

(a) Demand Pull Factor : The demand for goods and services is a function of several variables. The increased demand will pull the price in an upward direction leading to inflationary trends. Some of the important factors are discussed below :

(i) Rapid Growth of Population

There has been continuous and big increase in India's population since 1951. The population which was 36.1 crores in 1951 rose to 68.4 crores in 1981. Increasing population means more mouths to feed and hence leads to an upward shift in the aggregate demand. Increase in population to the tune of 18 to 19 million every year does have an effect on the price situation. In short, increasing population is a factor that pulls the demand curve upward and is operative over a long period.

(iii) Rising Government Expenditure

Government expenditure had been steadily increasing over the last 80 years. However, a sizeable part of this is on non-development items. The larger increase in non-development expenditure increases the money receipts of recipients without a corresponding increase in the supply of consumer goods. From nearly Rs. 740 crores in 1950-51, the revenue expenditure of the government (Both Centre and states) increased to nearly Rs. 37,000 crores in 1980-81 and nearly Rs. 2078135 crores in 2010-11. No wonder the economy has been made to pay back for this expenditure in the form of rise in prices.

(iii) Increase in Incomes

Increase in the incomes of a sizeable part of population add to the demand for goods. The rise in the incomes of the people who found jobs in the capital goods sector is of particular relevance. Thus, the "capacity" increased without there being any increase in the flow of capital goods. In the decade of 1951-61, aggregate investment was Rs. 10,000 i.e. an annual average of Rs. 1000 crores. During the 1980s the Government investment amounted to Rs. 30,000 crores and Rs 308550 crores during 2002-07.Since the priority given to basic and heavy industries in the plans has been the highest, a large part of the resources was utilized in the sector and large employment was created in the manufacture of basic metals. These industries which produce "mother machine" take a long time to come up and still longer to reach the level of full capacity. Thus, during the gestation period, spiral of prices began to go up.

Deficit Financing

Deficit Financing in India has been restored to on a large scale to meet the increasing government expenditure both developmental and non-developmental. In a developing country budget rarely balanced. The budget deficits are not only a fact but they also constitute an integral feature of fiscal policy and for this reason 'deficit financing' becomes a source of funds. When the deficit financing is of large dimensions, flow of income is proceeding at a much faster pace than the capacity of the economy to generate correspondingly large supply of goods and services. Another way of putting it is that money in the hands of the public are rising too fast in relation to the availability of goods. During the First, Second and Third Plans, 17 percent, 20 percent and 13 percent of the total financial expenditure was met through deficit financing, the absolute size during the three plans was Rs. 420 crores, 1133 crores and 2191 crores respectively. Thus, the increased money incomes press on the available supply of consumer goods. Further that part of deficit financing which is directed towards the non-productive uses, has contribution only in raising prices.

(v) Increase in Money Supply

Money supply acts as a casual factor in the inflationary situation. In a developing country, increase in money supply are not the result of reserves by the central bank for the non-banking sector through purchases of government bonds and other eligible securities. Even to the commercial and co-operative banking sector, the Central Bank does not provide much credit except for short period to meet their seasonal requirements at times of harvesting crops. In other words, the source of monetary expansion is the excess in Government expenditure financed mainly by the Central Bank. Therefore, when we talk of excessive monetary expansion as being responsible for inflation, we are in fact referring to excess expenditure, especially bank financed Government expenditure.

Rapid increase in money supply with the public has also contributed to the rise in prices.

(vi) Role of Black Money

The use of black money which is acquired after evading taxes and which is circulating is used to finance largely the non-productive uses. It is difficult to estimate the amount of black money and the precise influence of this money in pushing up prices in recent years, but there is no gain saying that one of the factors responsible for inflationary pressure is the existence of unaccounted money. In situations of fast rising prices the emergence of a parallel economy diverts real resources from productive channels into unproductive ones. Thus, it not only feeds on the rise in prices but adds more fuel to the fire.

(vii) Foreign Exchange Reserves

During the period 1978-79 there was a phenomenal expansion in India's foreign exchange reserves. These reserves crossed the Rs. 5,000 crore mark in the beginning of 1980 as against only Rs. 250 crores in 1964-65. This was the result of sharp rise in foreign inward remittance. Large foreign inward remittances coupled with circumstances like trade surplus, large earning on account of invisible expansion in the money supply etc. proved highly inflationary.

Consequences of Inflation

One of the most controversial subjects is the nexus between inflation and economic growth. There have been examples of all types of phenomenon, namely high rates of inflation and low economic growth, high rate of inflation and high economic growth and high rates of growth with low rates of inflation.

In case of India, inflation distorted the price relationship and general imbalances have been created in the economy. The investment and capital in the long term projects stand discouraged and the capital resources have moved towards the short term uses. Production has also shifted from essential but controlled goods to non-essential and free goods. As a result of inflation, certain sectors of the economy are faced with recession. The rise in the price level has eroded the volume of investment in real terms.

Inflation has also led to more skewed distribution of income and wealth. The producers, traders and speculators gained enormously through ever rising profit margins and through illegal gains and windfall profits due to hoarding, speculation and black marketing. On the other hand, people with fixed income groups find their purchasing power eroded day by day. Old age pensioners, savers, those depending on rental incomes have literally been ruined. The unorganized working class working in small establishments have been very badly hit as they cannot claim any compensation against the price rise. Their money incomes remain stationary while the real income continues to go down with rise in prices. The rich thus become richer and poor have become terribly poor. Forty-eight percent of our population is still living below the poverty line. Even minor increase in food prices, particularly food articles, impinge harshly on the weaker sections of society. In short, the structure of the Indian economy makes it basically more sensitive to the less desirable socio-economic consequences of rising prices.

The board conclusion that generally emerges is that like whisky, inflation can be stimulating if it is resorted to on a modest scale. It is policy instrument to be used in a discriminating manner and intermittently. If it is restarted to in a complacent manner the situation will deteriorate and as the National Council of Applied Economic Research has rightly pointed out, “there will be little use continuing along a path which is fizzing out into the jungle.”

Avoidance of inflation is undoubtedly a very difficult task. But reasonable price stability can be achieved, provided there is a will on the part of Government and the public in this direction. In recent years, there is a feeling of helplessness in regard to the control of inflation and this must be replaced by confidence in the ability to control the situation.

At the same time it should be noted that inflation cannot be kept under check by one or two brave measures. What is called for is action on many fronts with a wise and courageous lead by the Government and utmost cooperation of all the sections of the determined implementation of the plan. Fiscal and monetary action constitutes important elements of the anti-inflationary strategy. Simultaneously various types of action should be taken to raise the standards of productivity on the farm, factory and office. This calls for reform of educational system and every inducement to make labour give forth its best.

Contrary to the general impression, policies for growth need not to be incompatible with programmes of ensuring social justice and rapid reaction of economic inequalities. It is a question of working out a harmonious blending of economic and social objectives, get the mixture generally accepted and implements them courageously and consistently. The immediate objectives should comprise short term as well as long term measures. The immediate objectives should be to arrest forth any further rise in commodity prices, by drastic action on the fiscal and monetary fronts.

So far as the long-term programme is concerned, it is quite obvious that it is not possible to have absolute stability. However, it must be the endeavour to keep down that average increase in prices to something like 2 to 3 percent per annum. Unless this goal is kept constantly in mind, there is a danger of price increase going far beyond this limit.

With this general approach, let us consider the various **elements of the policy** that should be formulated in India :

(1) Reduction of Budgetary Deficits : A substantial reduction of budgetary deficits on the part of Central and State Government is a must. The way in which the deficits are running several times the projected budget is a matter that should cause deep concern. No wonder that we are having galloping inflation. This is fiscal indiscipline of serious character. One should be gratified that literally, the government is having a fairly correct idea of the concept of budgetary deficits though the government is not consistent in this matter.

(2) Role of Food Supplies : Food supply plays a cardinal role in determining a clear-cut government price policy. India is a poor country and a major slice of the income is spent on food items. In order to contain the inflation, it is imperative that food production should be boosted up and a proper and realistic procurement and support price be announced so as to ensure proper return to the producer.

(3) Role of Agriculture Prices : In Indian conditions, agriculture prices are the kingpin of the structure, as several of the essential articles of mass consumption as well as some of the industrial raw materials are agriculture based. The demand for these commodities is nearly inelastic and supply erratic. Hence even a small change in the price of these commodities will have very large spread effect. While the aim should be to push up agricultural production, in short run adequate buffer stocks will help in stemming the inflationary spiral.

(4) Role of Fiscal and Monetary Policies : The instrument of monetary policy should also be used fully to keep inflation under check. Sensible demand management will have to be continued as part of inflationary policies. It is clearly recognized now that in developing economies and for that matter in developed countries too, credit policy has to be expansionary but in a regulated way. The exact mix of fiscal and monetary policy to promote growth with stability is always a matter of some arbitrariness and the mix has to be changed from time to time depending upon circumstances. While undoubtedly, fiscal policy is a senior partner, the importance of monetary policy should not be underestimated. In fact, one could even take the view, that greater the potential for monetary policy. The primary task of the monetary policy is to restrain secondary expansion following a large government deficit. At the same time, fiscal and monetary policy will have to provide positive encouragement to savings so that investment requirements of accelerated growth can be financed in a non-inflationary manner.

(5) Role of Infra-Structure bottleneck : Infrastructure plays a very significant role in formulating a suitable price policy. It is, therefore, absolutely necessary that further use of the existing capacity be made and over a period of time further infrastructure capacity should be created. Further there has to be significant increase in productivity both in agriculture and industry for maintaining a reasonable degree of price stability. In other words, management is equally important.

(6) Control of Market forces : Free play of market forces is fraught with grave consequences. Once supply failed of market forces is permitted, producers with Shylockain attitudes would hold the household to ransom. The government will have, therefore, to effectively intervene and strengthen the public distribution system.

(7) Weaker Section of Society : Majority of the Indian population is having a very low standard of living. Their income is low. There is rampant unemployment also. The Government owes the responsibility of protecting these people by providing the essential items at a responsible price through the public distribution system.

(8) Role of the Income Policy : In the 1960's there emerged a view in many developed countries that the conventional fiscal and monetary policies were not enough and that a new strategy was called for the need of the situation. It was believed that such a new instrument was "Income Policy". The main object of an income policy is to regulate the quantum and rate of growth of income of individuals (wage and salaried classes) and the business corporations in order to achieve objectivities to the economic growth, price stability and social justice. Modern trade unions are extremely powerful and can pressurize management to yield to unreasonable wage demands. There is some truth in it though like all generalizations it contains on element of exaggeration. In general trade unions know their long range interest and also know the capacity of an industry to meet a higher wage pull. In many countries which did not believe in planning even of the indicative type an income policy was looked to as a means of achieving some of the purpose of economic planning including that of keeping under check the inflationary forces. That was especially true of a country like West Germany.

While, there is much to be said for following the spirit of an income policy it should be emphasized that an income policy is not a substitute for financial discipline on the part of Government. If there is large budgetary deficit and government looks to an income policy to keep in check the inflationary consequence it will be fooling itself. It therefore comes to that if fiscal and monetary policies are all right and incomes policy is unnecessary. If fiscal and monetary policies are strongly inflationary in character then an incomes policy will be of no avail except as a temporary measure.

Conclusion

The problem of a suitable price policy in the developing economy arises largely owing to the persisting pressures of inflation. Price suitability does not mean freezing the price at given levels, as slight rise in price level acts as a stimulant to the economy. To ask for more price stability without economic growth is useless. On the other hand sustained economic growth and economic well-being cannot be accomplished unless there is substantive price stability. There is a mistaken view that one or the other has to be sacrificed. This need not be so. With careful and determined management it should be possible to achieve price stability and economic growth. That alone can lead to economic growth and political and social stability.

SUGGESTED QUESTIONS :

1. Define Inflation. Suggest measures to control it.
2. Discuss cost push inflation.What are the consequences of inflation?

SUGGESTED READINGS

(L.NO 2.1-2.9)

1.	Gaurav Datt and Ashwani Mahajan	:	Datt and Sundharam Indian Economy
2.	Misra and Puri	:	Indian Economy (Use latest editions of these books)
3.	B.P. Tyagi	:	Public Finance