108_INDIAN ECONOMY
Prof. Nilam Naidu

Basic Features of Indian Economy

1.0 Introduction

Indian economy is developing economy in which agriculture is the back bone of Indian economy. About 30 % of India's population is on the below poverty line. Mineralresources are not fully utilized. Majority of the people of India are poor. Indian economy is affected by it. Countries which are on the part of progress and which have their potential for development are called developing economies. So, India is termed as developing economy by modern schools. India is of mixed economy, both public andprivate sectors coexist. Industries in India are broadly divided into two categories: thosethat are run by the public sector and those that are licensed to be established and runby the private sector.

1.1 Presentation of Subject Matter:

In this unit, we will study the characteristics of the Indian Economy as a developing economy, features of Indian Economy as a mixed economy as well as structural changes in Indian Economy. Besides this, we will study Indian Economy and Inclusive growth. India is among the most potential developing economies in the world. The unemployment and under employment is another important feature of Indian economy. In underdeveloped countries labour is an abundant factor. It is not possible to providegainful employment to the entire population.

1.1.1 Characteristics of the Indian Economy as a Developing Economy :

Indian economy has been attaining praise worthy progress in its different fields since the adoption of economic planning. In order to achieve the goal of rapid economic development, the Government of India under the able leadership of the then Late Prime Minister Jawaharlal Nehru, has successfully adopted the path of economic planning. Till now, India has completed eleven five year plans. Due to the implementation of thesefive year plans, Indian economy has achieved considerable improvement over the past. Therefore, considering the level of development, Indian economy can be termed as aplanned developing economy. India has its following basic features as a developing economy.

1. National Income :

The national income in India has been increasing at a slow but steady pace. It can be seen that the national income of India at 1993-94 price has increased from Rs 1,32,367 crore in 1950- 51 to Rs 11,15,157 crore in 2001-02 registering a growth rateof 842.5 per cent during the last 51years.

2. Composition of National Income :

The sectorial contribution of national income is a significant indicator of the degree of development attained in the economy. The contribution of primary sector which is composed of agriculture, forest, fishery and mining has declined from 56.4per cent ofGDP in 1950- 51 to 45.5 per cent in 1970-71, to 13.5 per cent in 2012-13.

3. Low per Capita Income :

Developing economies are marked by the existence of low per capital income. The per capita income of an India in 2010 was $1270. Barring a few countries, the percapita income of the Indian people is the lowest in the world. During 1960-80, development economies grew at faster rate than the Indian economy, but during 1990-2010, Indian economy has grown at a faster rate than the developed economies.

4. Capital Formation :

Capital formation is playing an imperative role in accelerating the pace of economicgrowth of the country. Capital formation is possible with high rate of savings in the economy. It would be of high interest to look into the estimates of gross domestic saving in India since the inception of planning. During the first four decades of planning, the rate of gross domestic savings has increased considerably.

5. Agricultural Development :

In India, the agriculture sector has attained a considerable level of developmentduring the seven decades of planning. Besides, agriculture is occupying a pivotal position in respect of overall economic growth by contributing towards supplies of food, raw materials and exports. The total agricultural output has increased. The total production of food grains has increased from 55.0 million tones in1950-51 to 212.0 million tons in2001-02 and to 259 .0 million tons in 2012-13.

6. Modernization and Structural Change in Agriculture :

The primitive technology of cultivation, out dated land tenure system and lack of infrastructure for raising productivity were formidable barriers to agricultural advancement at the start of the planning period. In free India, good luck to planners that Zamindari and other intermediary land tenure system have been eliminated.

7. Industrial Development :

The industrial sector of the country has achieved tremendous progress. During the planning period, the industrial production in the country has also increased significantly. Production of machine tools industry marked the increased output by more than 600tones. The total volume of electricity generated has also raised from 5.1 billion kwh in1950-51 to 545.6 billion in 2003-04. In this way, the industrial sector has attained a considerable progress and has also become successful to diversify in its structure.

8. Changes in Industrial Organization :

The industrial organization has also recorded a considerable development. The public sector investment has also attained considerable production in industry and has sustained the industrial transformation. Simultaneously, the private sector and joint sector have also grown considerably in respect of its industrial organization and diversified its activities for large extent.

9. Expansion of Infrastructure facilities :

The infrastructural facility has also expanded to a significant extent. These facilities include development like transportation and communication facilities generation of electricity, irrigation facilities etc. The rail and road system dominates over the entiresystem of the country. Being the Asia's largest and world's second largest organizationin the terms of route length, Indian Railway has expanded, its total route length of raillinehas also increased from 53600 kms, in 1950-51 to 67000 kms in 2003-04. Total lengthof national highways has increased to 39.1 lakh kms in 2000-01 against 4 lakh km in1950-51.

10. Development of Financial Institutions :

After independence, India has made remarkable progress of banking, non financialinstitutions and insurance sector. The commercial bank of the country has attained significant progress since its nationalization in 1969. The share of the priority sectors has enhanced like agriculture, small scale industries and transportation and the total bank credit has increased from 12 percent in June 1969 to 46.7 per cent in Dec. 2000. The Government has also set up a variety of financial and other institutions so as to assist the agriculture and industrial sectors in respect of provision of raw materials credit supply, marketing, storage, research, technology and infrastructure facilities though financial arragements.

11. Human Resource Development :

As far as human resource is concerned, India has achieved a moderate rate of success. The major component of human resource development included expansionof social infrastructure for making adequate provision for education, health care, watersupply, sanitation and social security. The average life expectancy at birth in India hasgradually increased from 41.2 years in 1951-61 to 67 years in 2000-1. The infant mortality rate has declined from 146 to74 per thousand live births during the same period. Moreover, a massive programmer for providing sanitation facilities has been developedand by March 1996, about 4.64 per cent of rural population and 50 percent of urban population have been covered with sanitation facilities.

12. Export Increased :

The volume of export in India has also recorded a considerable increase since 1950-51. The total value of exports in India has increased from a mere Rs. 947 crore to117 525 crore during 1950-51 to 1996-97. With the gradual diversification and growth of the industrial sector. India started to export various types of non-traditional products. Accordingly, the share of jute, tea and cotton textiles in the total export earning of thecountry gradually declined from 60 per cent to

10.9 per cent during 1950-51 to 2001-02. But, the share of machinery and engineering goods in India's total exports has increased gradually from 2.1 per cent to 13.71 per cent during 1960-61 to 2002-03.

13. Employment Generation :

With the gradual development of various sectors of the economy, the country hasstarted to generate employment opportunities for the people of the country. The continuation of the strategy during the ninth plan is expected to generate 47.5 million additional employments during the period 1997 to 2002.

14. Poverty :

The incidence of poverty in India has also been declined in recent years. According to Planning Commission estimates, poverty shows that the proportion of total population lying below the poverty line has declined from 54.1 per cent in 1972-73 to 37.4 per centin 1987-88 and then to 24.4 percent in 2000-01. This is a significant achievement of ourcountry.

15. Primary Producing :

One of the basic characteristics of developing economy is that it is primary producing. A very high proportion of working population is engaged in agriculture which contributes a very large share in the national income. In 2010, about 58 per cent of the working population was engaged in agriculture and its contribution to national income was 18.9 per cent.

B Check Your Progress

Choose the correct alternatives from the following.

1. The primary sector is composed of --------

1) Agriculture 2) Forest 3) Fishery 4) All above

2. The contribution of primary sector has ---------

1) Constant 2) Increased 3) Decreased 4) All above

3. The per capita income of the Indian people is------------ in world.

1) Lowest 2) Highest 3) Both 4) None of above

4. The average life expectancy at birth in India has increased at -------- n 2000-01.

1) 50 Years 2) 67 Years 3) 75 Years 4) 62 Years

5. In 2010, about ------- of the working population was engaged in agriculture.

1) 64 % 2) 58 % 3) 70% 4) 25%

1.1.2 Features of Indian Economy as a Mixed Economy :

A mixed economy is an economic system that incorporates aspects of more thanone economic system. This usually means an economy that contains both privately- owned and state-owned enterprises and that combines elements of capitalism and socialism, or a mix of market economy and planned economy characteristics. This system overcomes the disadvantages of both the market as well as planned economicsystems.

B Meaning of Mixed Economy:

In a mixed economy, private and public sector go side by side. The government directs economic activity in some socially important areas of the economy, the rest being left to the price mechanism to operate. The public and private sectors co-operate each other to achieve the social objectives. The private sector is considered to be an important instrument of economic growth. Even since independence India's economicdevelopment has been guided by two aims to build up democratic means rapidly expanding and technologically progressive economy and social order based on justice and offering equal opportunity to every citizen of the country.

B Planning With a Mixed Economy:

It is through planning in a mixed economy that the merits of a socialist economy are imported and defects of capitalism are sought to be removed. Planning providersprovides all the freedom of capitalism such as production, consumption, ownership offactor of production etc. At the same time the state regulates the working of the private sector through measures like taxes, subsiding, and power, credit, etc. in keeping withthe nation's interests. Moreover, planning also seeks to prevent activities such as hoarding and black markting and even resorts to rationing in case of shortages. The main challenge for planning in a mixed economy is ensuring the cooperation of both the private and public sector to achieve the targets of the plan. Moreover, there is also aneed today to divert the attention of the private sector into playing a more active socialrole for overall development of the economy.

B Types of Mixed Economy:

Even in the mixed economy model, our leaders had to choose between two alternatives-the mixed capitalist system, as envisaged by Samuelson and Hansen and followed with some modifications by USA, UK and France and the mixed enterprise system, followed in several developing countries where governments interfered in the day-to-day working of the economy through a control and regulation mechanism and also participated actively in their economic activities. In the first model, the means of production are owned by private entrepreneurs while governments control and regulate the working of the economy through its economic policies, especially the monetary andthe fiscal policies. In such a mixed enterprise system, the government follows a numberof activites.

B Features of Indian Economy as a Mixed Economy:

1. Planned Development :

After independence, India had a splender industrial base. A long period of economicstagnation against the background of increasing pressure of population followed by theburdens millions of people and dislocated economic life. The promise of freedom couldonly be redeemed if the other fundamental rights. It has also provided Directive Principles of State Policy for more liberty. Thus, it was essential to rebuild the rural economy, tolay the foundations of industrial and scientific progress and to expand education andother social services. As a result, planning on a national scale, comprising all aspectsof economic and social life has been adopted since 1951.

2. Plan Objectives :

Indian has the beginning of planned development with the start of the first five year plan in April 1951. The central purpose of planning according to the first plan was identified as that of initiating “a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life”. In a broad sense, the basic objectivities of planning in India can be grouped under four heads; growth, modernization, self-reliance and social justice.

3. Role of Public Sectors :

Public sector has played a key role in the economic development of the country. Ithas helped in accelerating the rate of growth of national economy and reducing disparitiesin income and wealth. The changes in the distribution of outlay in the public sector, the changes in emphasis for different heads of development during the successive plans has highlighted the core aspect of our mixed economy.

4. Private Sector :

Along with public sector, proper care has been taken for private sector. It includes not only organized industry but agriculture, small industry, trade and great deal of activity in housing and construction and other fields. The share of the private sector in agriculturethat is little over one-third of our national income is contributed in the economy. It providesemployment to three fourths of our manpower. Therefore, in a mixed economy networkof institution has been established to regulate its activities. The measures have beenreviewed from time to time and appropriate inputs, raw materials, marketing and technology facilities were provided especially to small sector of economy. In view of thefast changing needs of a diversified industrial economy, the government has recentlyannounced a series of measures to further liberalize the industrial policy and procedures.

5. Relation between Public and Private Sector :

With the rapid expansion of the economy, wider opportunities of growth arise forboth the public and the private sectors. The second plan had pointed out that the two sectors have to function in union. As a whole, the plan can go through only on the basis of simultaneous and balanced development of the two sectors. The impact of public investment on the overall pace of expansion is profounding. In fact, a high level of public investment in infrastructure and key industries is a pre-conditioning for development in the private sector. The co-existence of large public sector along with free enterprisesunder private sector has transformed the economy into a mixed one. Some strategic basic industries are being run under the public sector while a good number of industriesare being managed in private sector. Thus, many private enterprises depend on the orders which flow public activity and their growth and profitability depend directly on the expansion in public activity and their growth and profitability depend directly on the expansion in public sector investment.

6. Role of Market Mechanism :

7. Market mechanism has been playing a predominant role In India. Prices of variouscommodities are determined by market forces, future expectations etc. But the marketmechanism in India is again not completely free from state control. Besides, the central government has introduced certain controls and incentive measures for influencing the market decision. These include-budgetary measures, import controls, establishment of fair price shops for the distribution of essential commodities at reasonable prices, purchase of agriculture commodities by the government at minimum support prices. Reduction of Economic Inequalities :

Economic inequalities are the features of capitalistic economy. Inequalities in the distribution of income and wealth of the extreme degree are economically harmful, socially unjust and politically undesirable. Extreme inequalities reduces social welfare and generate class-conflicts inequalities in the distribution of income and wealth. In this direction, the Government has imposed direct taxes at progressive rates through incometax, tax on capital gains, wealth tax, death duties, gift tax etc. Again, in order to provides necessary support to the poorer section of the society, the Government has undertakenvarious welfare measures like free medical facilities, free education, old age pensions,and widow pensions along with other poverty alleviation programmers in rural and urban areas of the country. But in spite of all these, mixed economic framework in India hasaccentuated economic inequalities.

B Advantages and Disadvantages of Mixed economy:

A) Advantages of Mixed Economy :

If Indian economy has registered much faster and commendable economic growth, especially after the opening up of the economy, it is in no small measure due to the firmfoundation laid by the imperatives of the mixed economy. Thanks to planner, the mixed economy pattern government had adopted, Today, India has emerged as a leading industrialized country amongst the developing countries of the world. Indigenous capacityin a number of industries has been built to a point that except for certain industrial rawmaterials such as petroleum, sulphur, rock phosphate and non-ferrous metals whereour natural endowment is limited and certain high-tech sophisticated items of machinery, there are very few areas in which imports are necessary for sustaining the growth of economy.

1. Producers and consumer have sovereignty to choose what to produce? And what to consume? But production and consumption of harmful goods and services may be stopped by the government.
2. Social cost of business activities may be reduced by carrying out cost-benefitanalysis by the government.

As compared to Market economy, a mixed economy may have less income inequality due to the role played by the government.

3. Monopolies may be existing but under close supervision of the government it can be controlled.

B. Disadvantages of Mixed Economy:

Some of the disadvantages have been found in the functioning of mixed economyin India. Undue Emphasis on the Growth of Public Sector, it has already been stressed earlier that the Government of India while implementing its socialistic pattern of the society under the mixed economy gave undue emphasis on the growth of the public sector. This could be easily understood from the fact that at the dawn of the India's five year plans, there were only five centrally owned public sector enterprises including defence and postal services with a total investment of INR 295 million. By 1991, these investments had shot up to more than INR 20, 00,000 million. The number of public sector enterprises owned by the central government has gone up to more than 225 and more than 6 times the number of the enterprises owned and managed by state governments and local self-governments.

B Check Your Progress

Choose the correct alternatives from the following.

1. In Indian mixed economy---------- sectors go side by side.

   1) Private 2) Public 3) Both 4) Non of above

2. The state regulates the working of the private sector though --------

   1) Taxes 2) Subsidy 3) Credit 4) All above

3. The feature of capitalistic economy is economic --------

1) Equality 2) Inequality 3) Both 4) None of above

4. High level of public investment in infrastructure is a pre-condition fordevelopment in ------------

1) Public sector 2) Private sector 3) Both 4) None of above

5. Economy incorporates aspects of more than one economic system.
Capitalist 2) Socialist 3) Mixed 4) None of above

1.1.3 Structural Changes in the Indian Economy :

The purpose of economic development is not only to increase the output but alsoto change the composition of output. Thus, structural change in an economy consists of change in the composition of output of the economy. The Indian economy has witnessed several such changes in its structure during 1990s as this period marked transition in her industrial economy. India had a more balanced structural change and aslower insertion in the world market, although some sectors, such as software, steel,automotive and pharmaceuticals are recently increasing their share in the world markets.Looking at subsector level, it is clear that, apart from agriculture, workers were employed in manufacturing, wholesale, retail trade, hotels, most of the restaurant and community,social and personal services. However, the highest employment growth rates is found in construction, real estate, insurance and financial intermediation.

B Structural Changes in Indian Economy:

Apart from the growth in quantitative terms, there have been significant changesin India's economic structure since independence.

1. Changing Sectoral Distribution of Domestic Product :

Change in composition of domestic product or change in national income by industryof origin refers to change in relative significance or share of different sectors of the economy. Generally, an economy is divided into three major sectors viz. primary, secondary and tertiary sectors.

2. Share of Primary Sector :

The primary sector includes agricultural and allied activities. With the developmentprocess, significance of primary sector declines while that of secondary and tertiary sectors increases. After independence, Indian economy has also experienced such changes. The share of primary sector in GDP at factor cost (at 1999-2000 prices) was
56.5 per cent in 1950-51 declined to 34.6 per cent in 1990 91 and then it reduced to

19.7 per cent in 2007-08.

3. Share of Secondary and Tertiary Sector :

The secondary sector’s share in GDP was 13.6 per cent in 1950-51 which has Increased to 23.2 per cent in 1990-91 and further to 24.7 per cent in 2007-08. Tertiarysector at a broad level thesis is confidant in the low income countries on average above 65 per cent of the labour force are employment in agriculture and less than 20 percent in industry. The share of fertiary in GDP increased from 29.9 per cent in 1950- 51 to 55.6 per cent in 2007-08, and in 2009-10 it was more than 59 per cent.

4. Growth of Basic Capital Goods Industries :

When country attained independence, the share of basic and capital goods industries in the total industrial production was roughly one-fourth. Under the secondplan, a high priority was accorded to capital goods industries, as their development was considered a pre-requisite to the overall growth of the economy. Consequently, alarge number of basic industries which produce capital equipment and useful raw materials have been set up making the country’s industrial structure pretty strong.

5. Expansion in Social Overhead Capital :

Social overhead capital broadly includes transport facilities, irrigation systems, energy production, educational system and organization and health facilities. Their development creates favourable conditions for growth and also for better human living.The transport system in India has grown both in terms of capacity and modernization. The railways route length increased by more than 9000 kms and the operation fleet practically doubled. The Indian road network is now one of the largest in the world as a result of spectacular development of roads under various plans. India has also seen growth in life- expectancy and literacy rate but education has not expanded at a desiredrate.

6. Progress in the Banking and Financial Sector :

Since independence, significant progressive changes have taken place in the banking and financial structure of India. The growth of commercial banks and cooperative credit societies has been really spectacular and as a result of it the importance of indigenous bankers and money-lenders has declined. Since nationalization, these bankshave radically changed their credit policy. Now more funds are made available to prioritysectors such as agriculture, small-scale industries, transportation, etc.

7. Capital Goods :

Indian economy has progressed structurally when we consider the growth of capital goods industries, expansion of the infrastructure, performance of the public sector, etc.

8. Change in Employment Pattern :

In India not only the share of people employed in the primary sector remained high(62%), but the absolute number of agricultural workers increased more than 39%. Although the rise of employment was higher in the secondary and tertiary sectors 131% and 114%, respectively in 2004. The number of persons working in agricultural activitieswas about 4 and 3 times the quantity of workers in the secondary and tertiary sectors.

9. Employment in Informal Sector :

The distinction between formal and informal sectors is taken into account; the contribution of labour reallocation in terms of productivity growth is reduced. The movement of workers from agriculture to other sectors increased labour productivity; however, this effect was partially counterbalanced by the movement of workers from formal to informal sectors, where not only productivity but also wages are very low and illiteracy is substantial.

10. Migration from Rural to Urban :

It must be stressed that in both area the labour productivity of industry and in services was much higher than that of agriculture. Therefore, the transfer of manyemployees from agriculture to industry and services has contributed to the pace of economic growth. The possibility of young school leaners to enter industry or services rather than remaining unemployed or underemployed in agriculture, thus gaining much higher incomes or wages, was even more important. In India most of the people moving from rural to urban areas could only find jobs in industry or service activities of the informal sector, earning is much less than people working in the formal sector of the economy.

Above factors over the years are believed to have created an element of dynamism in the country's economy and one can now hopefully say that it would sustain development in the future.

B Check Your Progress

Choose the correct alternatives from the following.

1. Generally, an economy is divided into.............. sectors.

1) Primary 2) Secondary 3) Tertiary 4) three

2. In 2010-11, the share of secondary sector in GDP was …………

1) 14.4 % 2) 27.9 % 3) 57.7% 4) All above

3. The highest employment growth rate is found in …………..

1) Construction 2) Real Estate

3) Insurance and Financial 4) All above

4. The movement of workers from .... to other sectors give rise to labor Productivity.

   1) Agriculture sector   2) Secondary sector

   3) Tertiary sectors   4) Non above

5. has also increased in India.

   1) Life- expectancy   2) Literacy rate

   3) Life expectancy & Literacy rate   4) none of above

1.2.4. Indian Economy and Inclusive Growth:

Reforms undertaken in the early 1990s made India one of the world's fastest growing economy. The Indian growth story has been one of the high GDP growth economy but primarily driven by the growth in services sector. Inclusive growth thus seeks to broaden the flow of benefits of globalization towards the currently excluded sections. However, for achieving inclusive growth, it is essential that the diffusion of opportunities be supported with good governance and accountability. The government and private sector can play complementary roles in driving inclusive growth. There is a need for the public and the private sector in India to have a unified approach towards how they can extend, innovate, and collaborate in new ways to drive inclusive growth. It presents the opportunities available for building an inclusive India by identifying key levels in governance, education, energy and resources, telecom and technology,infrastructure, healthcare, financial inclusion, and business model innovation.

B Meaning and Concept of Inclusive Growth:

Inclusive growth basically means broad based growth, shared growth, and pro- poor growth. It decreases the rapid growth rate of poverty in a country and increasesthe involvement of people into the growth process of the country. Inclusive growth by itsvery definition implies an equitable allocation of resources with benefits incurred to every section of the society. But the allocation of resources must be focused on the intended short and long term benefits of the society such as availability of consumer goods, people access, employment, standard of living etc. It sets a direct relationship between macro and micro determinant of the economy and its growth. The micro dimension includes the structural transformation of the society and macro dimensionincludes the country's GNP and GDP. To maintain rapid and sustainable growth is some time very difficult this is because resources vaporizes during the allocation andmay give rise to negative externality such as rise in corruption which is major problemin the developing small nation. But, however, it has created an environment of equality in opportunity in all dimension of livelihood such as employment creation, market, consumption, production, and has created a platform for people who are poorto access good standard of living. If we focus on the inequality between poor and rich household in a country we can reach to an optimal solution so that we can minimize the differences.

Inclusive growth has been projected as the strategic pillar in the forthcoming 12thfive year plan. The policy designers are of the opinion that the ‘inclusive growth strategy for the 12th five year plan should be based on the experience of inclusive outcomes ofthe 11th five year plan’. The approach to 12th five year plan titled ‘Faster, Sustainable and More Inclusive Growth’ defines inclusive growth as: Inclusive growth should result in lower incidence of poverty, universal access to school education including skill andeducation, better opportunities for wage employment and livelihood, improvement in health outcomes, improvement in provision of basic amenities like water, electricity, roads, sanitation and housing.

B Indian Economy and Inclusive Growth:

1. The opportunity :

The objectives of an inclusive growth agenda is to reduce poverty, improve quality of life, and ensure to the extent possible, that all segments of society benefit from the economic growth of the country. A number of macro and micro level interventions have shown to be conducive to promoting inclusive growth. At the macro level, recommendations such as improving fiscal discipline, trade liberalization, openness to FDI, privatization, deregulation, tax reforms, labour market flexibility, providing socialsafety nets, reorientation of public expenditure, and legal and political reforms can be useful in guiding policy discussions for promoting rapid and inclusive growth in developing countries. At the micro level, reducing income and non-income related inequality, improving public infrastructure, healthcare, education, access to markets, accountability, women’s empowerment, role played by civil society organizations, and good governance can help accelerate poverty reduction.

2. Governance :

Good governance is at the core of improving the delivery of essential publicly provided services. It provides the mechanism for linking inclusion, decision-making, and accountability. Problems in infrastructure, critical for building an inclusive India, can often betrayed back to poor governance. Red tapism, lack of accountability, and corruption has plagued India since independence. The government has launched a large number of initiatives over the years in order to achieve the objective of rapid growth coupled with poverty alleviation and inclusiveness. Many of these initiatives have failed to achieve their goals because of poor design, insufficient accountability, and corruption at various levels. Without effective implementation, even substantial government expenditure results in limited success.

3. Education :

A better education is often an important means to better jobs, increased income,and a better quality of life. To illustrate, Japanese investments in education after the Second World War helped it transform from a defeated nation to an industrial nation that created innovative products, increased employment, and provided inclusive growth
to its citizens. Over the past few decades, the global economy has shifted from being manufacturing-centric to acknowledge driven one. The service sector contribution of world production has grown from around 52% in1970 to 68% in 2005. India's increasingintegration with the global economy and the growth of sectors such as IT, BPO, and financial services have led to an increased demand for knowledge workers.

4. Energy and Resources :

The energy sector suffers due to very high distribution losses and theft. Lack of competition in many critical segments of the industry, especially distribution, results in inefficiencies as the existing monopolies of state owned distribution continue to underperform. This results in unreliable power supply, which hampers agriculture and industry and also penalizes households while causing large welfare losses. Rural electrifications an important tool to bring about inclusive growth by making electricity available to farmers and in rural areas. Electricity supply is thus one of the crucial inputs in the context of inclusion. Reforms such as strengthening of regulation

5. Telecom and Technology :

The technology and telecom sectors in India have experienced tremendous success. The past decade has seen an explosion in the growth of communications connectivity and the technology industry in India. As of March 2011, India has a tale densityof 70% (urban tale-density exceeds 150%, whereas rural tale-density is 30% and the IT industry contributes to 6% to the GDP. The outsourcing industry is expected to grow US$ 225 billion over the next decade. With over 25 lakh people employed directly and indirectly by the IT industry, it is one of the largest employment industry in our country.

6. Infrastructure :

Investment in infrastructure drives the growth of a country's economy. In 1980, India had a greater investment and infrastructure base than China. India's population,availability of natural resources, and low cost base make it attractive as a manufacturing destination and the manufacturing sector can subsequently drive growth in jobs and incomes. However, for manufacturing to be competitive and sustainable requires an efficient supply chain and physical infrastructure for procurement of raw materials, storage of work-in-process and finished goods, and speedy transportation to customer based on demand.

7. Healthcare :

The healthcare industry in India promises to be one of the fast growing ones. Thecountry has world class hospitals, highly qualified medical personnel, and is gradually emerging as a preferred destination for medical tourism for citizens of the developed world. However, the actual delivery of healthcare services is inadequate for a large section of the local population. India compares poorly to other developing countries onparameters, such as hospital bed density, physician density, number of doctors graduating every year from Indian universities, and public expenditure on healthcare. Also, the low penetration of health insurance (only 15% of the population has any form of health insurance) implies that a serious illness or hospitalization causes significant economic hardship to many sections of society, especially the urban operand the rural population. In the context of healthcare, inclusive growth implies that healthcare resources are allocated equitably such that the benefits are shared by all segments ofthe society. Today, healthcare is not easily available to all sections of the Indian society.

8. Financial Inclusion :

A society can be considered financially inclusive when all segments and strata of society have access to financial services and timely and adequate sources of formal credit. Similar to access to education and healthcare, the access to finance is an important one for all segments of society, and especially to the poor and marginalized sections. For example, the Community Reinvestment Act of 1997 in the USA mandates banks to offer credit to all population segments within its area of operation and prevents specific targeting of the rich. Today, the bulk of India's population lacks access to financialproducts and services, such as saving.

1.3 Summary:

Indian economy is developing economy in which agriculture is the back bone of Indian economic. About 30 % of India's population are on the below poverty line. Mineral resources are not fully utilized. Majority of the people of India are leading a poverty line. Indian economy is having its following basic features as a developing economy such as low per capita income, population pressure on agriculture, poverty, less employment opportunity, increase in export etc.

A. A mixed economy is an economic system that incorporates aspects of more than one economic system. This, usually means an economy that contains both privately-owned and state-owned enterprises or that combines elements ofcapitalism and socialism, or a mix of market economy and planned economy characteristics. In a mixed economy, private and public sector go side by side. The government directs economic activity in some socially important areas of theeconomy, the rest being left to the price mechanism to operate. The public and private sectors co-operate each other to achieve the social objectives.

B. Thus, the structural change in an economy consists of change in the compositionof output of the economy. The Indian economy has witnessed several such changesin its structure during 1990s as this period marked transition in her industrial economy. India had a more balanced structural change and a slower insertion in the world market, although some sectors, such as software, steel, automotive and pharmaceuticals are recently increasing their share in the world markets. After independence, Indian economy has also experienced such changes. The share of primary sector in GDP at factor cost (at 1999-2000

prices) was 56.5 per cent in 1950-51 declined to 34.6 per cent in 1990 91 and then it reduced to 19.7per cent in 2007-08.

C. Achieving inclusive growth is not only to be seen as a priority in the Planning Commission's Five Year Plans, but also as an equally significant opportunity for every enterprise in the public and the private sector. Today, 'Inclusion' for India isn't a mere buzzword that individuals and enterprises talk about, but an imperative that calls for concerted action towards bringing inclusion in every aspect of how individuals, public and private enterprises as well as the government operate and envisage to grow. Focus of the government is on better and more efficient way.

B Check Your Progress:

Choose the correct alternatives from the following.

1. Since .... made India one of the world's fastest growing economies.

1) 1990 2) 2000 3) 1996 4) All above

2. The services sector contribution of world production has grown around 52%in………..

1) 1970 2) 1975 3) 1974 4) All above

3. Inclusive Growth is adopted in ------ Five Year Plan in India.

1) 11th 2) 10th 3) 8th 4) None of above

4. Community Reinvestment Act of .... in the USA mandates offer credit

1) 1997 2) 1978 3) 1998 4) Non above

5. India has also seen growth in ……..…..

1) Life- expectancy 2) Literacy rate

3) Both 4) None of above

1.4 Terms to Remember

B FDI: The net inflows of investment (inflow minus outflow) to acquire a lasting management interest in an enterprise operating in an economy other than that ofthe investor.

B Financial Inclusion: Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-incomesegments of society.

B Informal Sector: The informal sector or informal economy is that part of an economythat is not taxed, monitored by any form of government, or included in any gross national product (GNP), unlike the formal economy.

1.5 Answers for Check Your Progress:

1. 2.1 1. All above 2. Decreased 3. Lowest 4. 67 Years 5. 58 %

1.2.2 1. Both 2. All above 3. Inequality 4. Private sector 5. Mixed

1. All above 2. 27.9 % 3. Construction 4. Secondary sector 5. Both1.2.4 1. 19902. 19703. 11 4. 19975. Both

1.6 Questions for Practice / Exercise:

A) Broad type questions

1. Explain characteristics of the Indian Economy as a developing economy

2. Discuss about features of Indian Economy as a mixed economy

3. Explain the structural changes in Indian Economy

4. Discuss the Indian Economy and Inclusive growth

B) Short Notes

1. Characteristics of the Indian Economy

2. Features of Indian Economy as a mixed economy

3. Structural changes in Indian Economy

4. Indian Economy and Inclusive growth

Population in India

2.0 Introduction:

The study of human resources is necessary from the point of view of economic welfare, because human beings are not only instruments of production but also ends inthemselves. So, it is necessary to know in quantitive terms the number of people living in a country at a particular time, the rate at which they are growing and the composition and distribution of population they hold.

The study of the topic of population problem, different economist explained differentviews i.e. father of economics Adam Smith says that population growth is helpful for economic development. On the other hand, Malths and Recardo said that, under some circumstances population growth becomes a growth retarding factor. This is particularly true in case of developing countries like India. These countries are characterized by scarcity of capital and abundance of labour force. The conditions prevailing in these countries are quite different from those found in developed countries. Population growthadversely affects economic development of developing countries. So the study of population in the context of India is essential

2.1 Presentation of Subject matter:

In this topic first of all we have to know the size and causes of growth of populationin India. Secondly, we have to discuss Demographic profile of population in India. Thirdly we have to observe the population growth and economic development in India. Lastly, we have to know the population policy for India.

2.1.1 Size and growth of population in India :

In the context of size of population, India ranks second in the world next only to China. India’s landscape is just 2.4 percent of the total world area. Whereas, its population is nearly 16.85 percent to the world population. It means that there is uneven distribution of population in India. So, the pressure of population on land is verymuch high.

Table No. 1

Growth of population in India.

Census	Population in million	Percentage increase and decrease
1981	236	
1901	236	00
1911	252	+5.7
1921	251	-0.3
1931	279	+11.0
1941	319	+14.2
1951	361	+13.3
1981	683	+24.7

2001	1029	+21.5
2011	1210	+17.64

Source: census 2011

Table No. 2

Compound annual growth rate of population

Census	Population in million	Percentage increase and decrease
1891	1921	0.19
1921	1951	1.22
1951	1981	2.15
1981	1991	2.11
1991	2001	1.93
2001	2011	1.64

(Source = census 2011)

In the above table No. 1 indicates that –

1) First time systematic census was undertaken in the year 1981 in India. After that for every 10 year census was undertaken.
2) During the year 1891 to 1921 population growth was stagnant.
3) From 1921 – 1851 – The steady growth Rate of Indian population.
4) After independence from 1951 to 1981 population growth in India was rapid inits nature.
5) During 1981 to 2011, there was high growth but found definite signs of showingdeclining.

Table No. 2 shows that compound annual growth rate of population in India in thefollowing way.

1) From the year 1891 to 1921 annual compound growth rate of population in India was very low i.e. 0.19% birth rate and death rate were very high in nature.
2) After independence from 1951 to 1981 annual compound growth rate in India was increased up to 2.15 which is very high in India's census history.
3) From 1981 Govt. of India adopted number of programmes and policy for controlling population. So India's compound annual growth rate was declinedgradually thereafter.

(I) Causes of Population growth i.e. High birth rate.

1. Early Marriage :

Marriage is very necessary for social and ethical point of view. Thus almost all people get married in our country. But, the average age of girls marriage in India is still18 year. Sometimes marriage takes place in India bellow 18 years. So, population growth rate is higher.

2. Universality of Marriage :

Marriage is both a religious and social necessity of people those who are not married, they doesn't get respect in the society. At the same time in western countrylike America marriage is not compulsory. So growth rate of population in India is higherthan western countries.

3. Illiteracy :

Illiteracy is another cause of population growth in India. Due to illiteracy peoples mind became traditional, superstitious, and irrational and will continue to have more numberof children and which leads to large families.

4. Poverty :

One more cause of increasing population is poverty. Those families who live below the poverty line welcomes further additions to their family. So, there are more numberof children in poor family.

5. Social and Religious Beliefs :

Most of the India families have a social and religious beliefs. They think that childbirth is a God's blessing for a family, the birth of a son is necessary to perform religious activities in the family. Therefore, population growth is higher in India.

6. Slow urbanization :

Generally, urbanization helps to reduce the birth rate. The cost of living in urban area is very high. So, each family try to control the size of its family. In the context of India, there is slow rate of urbanization, which leads to high growth rate population.

7. Climate :

Climatic condition of India is hot in nature. As a result of this chance of getting kidsare more. This fact generates more population in India.

8. Joint family system :

Till today, joint family system is prevailing in India. Couples in the joint family neverbecome responsible for their larger size of family. As a result, we find population growth rate is more in India.

(II) Causes of Rapidly Following Death Rate :

1. Controlled Diseases :

After Independence, there is a widespread increase of medical and health facilities. The diseases like plague, cholera, malaria, smallpox etc. have been almost eradicated. As a result, death rate in India has decreased and population growth has increased.

2. Controlled Calamities :

Once upon a time natural Calamities like famines, droughts and floods were horrible.After 1951 Govt. of India adopted number of programmes for development. So, therehas been remarkable progress and mortality rate was decreased.

3. Improved living standard :

Another cause of increasing population in India is improvement in standard of living of the people. Because of increasing standard of living, the people themselves try to maintain and continue better standard of living, so birth rate is automatically controlled and death rate also controlled.

Thus, the above mentioned reasons are found responsible for the growth of population in India.

2.2.1 Check your progress :

1) Choose the suitable alternatives and Answer the following question.

i) First census in India was undertaken in the year ……………

(a) 1991 (b) 1881 (c) 1951 (d) 1921

ii) Indian population was decreased during decade ………..

(a) 1951-61 (b) 1991-2001 (c) 1911-1921 (d) 1881-1891

iii) In the 2011 census report, the size of Indian population was …………….

(a) 100 crores (b) 121 crores (c) 140 crores (d) 36 crores.

iv) is main reason of increasing Indian population.

(a) High birth rate (b) Low birth rate

(c) Constant birth rate (d) Negative birth rate.

v) The compound annual growth rate of population in India since 1981 was …………….

Increasing (b) Decreasing(c) constant (c) Negative.

2.2.1 Demographic profile :

Introduction: India got independence from Britain on August 15, 1947. Jawaharlal Nehru announced that Independence has opened opportunity to the great triumphs andachievements that waited us. After Independence Govt. has made considerable progress in Agricultural sector, Industrial Sector, service sector etc. But some critical problems were emerged such as, unemployment, poverty and populations. Demographic profilecan be explained as below.

1) Average Annual Birth and Death rate:

Following table shows that Annual Birth and Death rates in India.

Table No. 3

Decade	Birth Rate Per 1000	Death Rate Per 1000
1901-1910	48.1	42.6
1941-1950	39.9	27.4
1951-1960	40.0	18.0
1961-1970	41.2	19.2
1971-1980	37.2	15.0
2010-2011	22.1	7.2

The above table No. 2 shows that the growth of population i.e. Birth rate and Deathrate was higher between the years 1941-1950. Birth rate and Death rates are 39.9% and 27.4% of India since adopted different population policies and given more medical facialities to the people. India's Birth rate and Death rate was decreased. Till today our Birth rate is higher than death rate. But actual compound growth rate of populationhas been decreased from 1.93% to 1.64% between the years 1991-2001 to 2001-2011.

2. Sex composition of population:

India's sex composition of population has been shown in the following table –
Table No. 4

Sex Ratio in India

Year	Female per 100 males
1901	972
1951	946
1981	934
1991	927
2011	940

Above table shows that, in the year 1901 sex ratio was 972 female per 1000 male. This sex ratio has been decreased up to 927 in the year 1991. After that sex ratio hasbeen increased up to 940 in the year 2011. But this kind of sex ratio is very low compared to other countries.

The sex ratios in some of the countries are as below

Table No. 5

Sr.No.	Country	Sex ratio 2001	Female per 100 males) 2011
1)	China	986	984
2)	India	933	940
3)	U.S.A.	1029	1025
4)	Brazil	1025	1042
5)	Pakistan	938	943
6)	Russian Fed.	1140	1167
7)	Japan	1041	1055
8)	Bangla Desh	958	978

Above table exhibits that country wise sex composition in most of the underdeveloped countries like China, India, Pakistan, and Bangladesh was very low compared to the developed countries, like U.S.A., Russia, and Japan etc. The Sex Ratio should be equal otherwise number of social problems will becoming serious.

3) Age composition:

Under population study age composition is helpful in determining the proportion of labour fource in the total population. The age composition has been shown in the followingway.

Table No. 6

Age composition (in percentage)

Year	Age Group		
	0-14	15-60	Afore 60
1911	38.8	60.2	1.0
1921	39.2	59.6	1.2
1961	41.0	53.3	5.7
1981	39.7	54.1	6.2
1991	36.5	57.1	6.4
2001	35.6	58.2	6.3

Above table shows reveals that…..

1) Before Independence actual working population (Age group between 15-60) washigher i.e. 60%.
2) After Independeced Birth rate has increased and death rate has decreased. The population between the age group 0-14 and above 60 has been increased and working population was decreased. So, dependency population and problems likepoverty, Inequality have increased.

4) The Density of population :

The term density of population means number of persons living per Sq. K.m. inthe country. Density of population has been shown in the following table.

Table: 7

Density of population in India

Sr.No.	States and union Territory	Density		
		1991	2001	2011
1.	Delhi	6352	9294	11297
2.	Maharashtra	257	314	365

3.	Bihar	497	880	1102
4.	West Bangal	767	904	1029
5.	Kerala	749	819	859
6.	Harayana	372	477	573
7.	Punbaj	403	482	550
8.	Rajasthan	129	165	201
9.	J & K	77	99	124
10.	Gujrat	211	258	308

The above table shows that….

1. Density of population is too much in the state like Delhi.
2. The Jammu and Kashmir states' density of population is very less than any other state in India i.e. 124 in the year 2011.
3. Density of population is higher in some of the states in India such as in Bihar, West Bengal, and Kerala etc.

5) Rural-urban Population :

Under Demographic profile in India Rural-urban population should be known. Rural-urban population Ratio can be explained as follows ….
Table No. 8

Rural Urban Population Ratio in India.

Censes	Rural	Urban	Urban Rural ratio
1901	89%	11%	1:8.1
1951	82.7%	17.3%	1:4.7
1971	80.1%	19.9%	1:3.7
2001	72.2%	27.8%	1:2.6
2011	68.8%	31.2%	1:2.2

Source – Indian Economy by Datta Sundaram Zolled in on

Before Independence most of the Indian population concentreated in rural area. After Independenced urbanization has been increasing. So urban – Rural Ratio has been decreasing. In the year 2011, 68.8% of population living in Rural area and 31.2% population living in Urban area. This is an endicator of Economic Development of India.

6) Literacy Rate of Population :

For the study of quality of population the Literacy rate should be understood. Generally, illiteracy has been creating many problems in country such as unemployment, poverty and inequality of income and wealth. The Literacy Rate in India is shown in thefollowing table.

Table No. 9 Literacy Rate in India.

Year	Literacy Male	Rate Female
1951	27.2	8.9
1981	53.4	28.2
1991	64.1	39.3
2011	82.1	65.5

The above table shows the percentage of population (Male and Female) those who are literate. In the year 1951 Literacy rate of male was 27.2% and female was only 8.9%. After Independence, Govt. has adopted the policy like compulsory education tothe children, Adult education program etc. resulted into higher literacy rate i.e. gradually from 82.1% and 65.5% for male and female respectively in 2011. This is a good sign forunderdeveloped country like India.

7) Life Expectancy :

Another indicator of countries demographic profile is Life expectancy of population (male and female). Life expectancy means on an average life span of the people in a country. Life expectancy can be explained with the help of following table –

Table No. 10

Life Expectancy in India

Period	Male	Female
1911-1921	19.4	20.9
1951-1961	41.9	40.6
1971-1981	54.1	54.7

2002-2006	62.6	64.2

Above table shows that before 1951 i.e. between the year 1911-1921 the Life expectancy of male and female was 19.4 and 20.9 years respectively. After Independence, infant mortality rate has decreased, living condition of people has also increased, and general health facility has increased. Thus, life expectancy of the people ofour country has been rose up considerably.

2.2.2 Check your progress :

1) Choose the suitable alternatives

i) In the year 1951 to 1960, the birth rate in India was ……………

(a) 40 (b) 40 (c) 27 (d) 9

ii) Between the year 2001-2011 death rate in India was ………

(a) 17 (b) 29 (c) 7.2 (d) 42.2

(ii) In the 2011 cencus the male-female ratio in India was …………….

(a) 1000 : 972 (b) 1000 : 940 (c) 1000 : 946 (d) 1000 : 1032

(iv) The density of population is very high in......................State.

a) U.P. (b) Bihar (c) Maharashtra (d) Delhi

(v) In 2011 census male literacy rate was...................female in India.

a) Greater than (b) less than (c) equal to (c) absurd to

2.2.3 Population Growth and Economic Development in India.

B Introduction:

Economic development and Economic growth are two different concept. Economic development and Economic Growth has been defined by various economists in theirown way. Let us see such views in the following way.

1) According to kindleberger "Economic growth means more output, while economic development implies both more output and changes in the technical and institutional arrangement by which it is produced and distributed.

2) According to Friedman "growth as an expansion of the system in one or more dimensions

without a change in its structure and development as an innovation process dealing with the structural changes transformation of social system."

In brief, Economic development is concerned with underdeveloped countries like India, Pakistan, Bangladesh etc. and Economic Growth is concerned with developedcountries. In this context of development and growth there is no doubt that the labourforce of the country makes a positive contribution. But, it is equally true that rapidly growing population is an obstacle in economic development. It has been discussed inthe following way.

1) Declining Land man ratio :

India holds 2.7% land out of world's total land. But, she supports 14% of population of the world. Since Independence, India's population increased from 36.1 crores to 121 crores, between the year 1951 to 2011. Thus, the population pressure has increased on the land. In the year 1951, density of population was 117 per sq. k.m. and in the year 2011 density of population was increased up to 382 per Sq. k.m. However, density ofpopulation is very unevenly distributed in India.

2) Population growth and capital formulation :

It is necessary that national income should grow at the same rate at which the population is growing for maintaining per capita Income. But, at present the rate of growth of population in India is 1.5 percent per annum. As far as maintaining a constant per capital real income, the national income must rise at the rate of 1.5 percent per year. To achieve this, capital investment is necessary. Today, capital-output ratio in India is 4.1. So for achieving growth rate of 1.5 percent, capital formation of 6.2 percent is necessary.

3) Sub-division and fragmentation in India :

As on toady, majority of population in India depends on agriculture; so there is heavy load of population on land. Due to this reason there were more sub-division andfragmentation of land holdings in our country.

4) Population and food Supply :

In the year 1951 Indian population was 36.1 crores; it has increased up to 121 crores by 2011. The food production was 65 million tone in the year 1951. It has alsoincreased up to 260 million tone in the year 2011. It means that the population has increased by more than three times and food production has increased by four times.Besides, per capita availability of cereals and pulses have also increased from 512 gm. to 532 gm. between the years 1961 to 2011 respectively.

5) Increased unemployment :

Since Independence, the population has increased from 36.1 crore to 121.2 crores between the year 1951-2011. The rising population led to rise in labour force of the community. But, because of inadequate increase in the employment opportunities unemployment and underemployment have increased. Now, it has become a seriousproblem to our economy.

6) Burden of unproductive population :

In the year 1951 working population was 60.2% and unproductive population was39.8%, but in the year 2011, working population decreased up to 58.2% and unproductivepopulation increased up to 41.8%. So, the dependency ratio has also increased.

7) Poverty problem :

After Independence, in the year 1951 there was absolute poverty. After independence number of development programmes have been introduced by the Govt. of India. But poverty problem has not been removed in generally by 2011. There is anabsolute and relative property in India.

8) Burden of Education, Medical and Housing facility :

As Rising population increases the Govt. expenditure on education, medical facilities and Housing facilities have also been increased. The expenditure on these items invite the burden on the general public of our country.

Thus, population growth is essential in India but it should be qualitative in nature. Though high growth rate and huge population invites number of problems but if it is qualitative in nature, will help to have better economic development.

2.2.3 Check your progress :

1) Choose the suitable answer and answer the following question.

i) India possesses land area to the total world is about …………..

(a) 7% (b) 15% (c) 2.7% (d) 10%

ii) India is called as .... Country.

(a) Developed (b) Backward

(c) Highly developed (d) Developing

iii) Availability of food supply like .... has increased from 512 gm to 532 Gm between the years 1961 to 2011 in India.

(a) Cereals and pulse (b) Fruits and vegetables

(c) Milk and Ghee (d) Meat and chicken.

iv) Has become a serious problem of land holding in India.

(a) Subdivision and fragmentation of land (b) Tenancy

(c) unemployment (d) Food.

v) The cause of increasing Govt. Expenditure on education, health and housing is due to …………..

(a) increasing population (b) decreasing population

(c) Globalization (d) privatization.

2.2.4 Population Policy for India.

B Introduction:

Before Independence India's population census. Population growth was very highfrom 1921. Before Independence, Mahatma Gandhi gave priority on morality and chastity for controlling population on the other hand Dhondo Keshav Karve opined priority formodern family planning instruments, Surgery etc. to check the rising population.

On 15th August, 1947 India got Independence. After that Govt. has made several programmes and policies for controlling population viz planning for economic development, birth rate control policy, Death rate minimizing policy, population policy, population Education policy etc. are the India's population policy which would be discussed hence forth.

B Meaning:

In simple, population policy means the policy adopted by the Govt. for controllingbirth rate in our country.

Govt. of India adopted population policy from first five year plan i.e. on 1952. After that during each plan period Govt. gave more priority to control birth rate, and death rate, awareness about small family, Abortion Act, population education, marriage policyand other Acts relevants to the population policy.

B Family Planning:

The most effective method of family planning is to control birth rate in the short period. The methods like contraceptive, rythem period and surgery etc. will definity retard growth rate of population.

B Main features of Planning in India 1952:

1) Education and wide spread publicity of family planning.

2) Incentives in the form of cash awards for male and female.

3) Increase in the fund for family planning center at Rural and Urban area.

4) Increase simple, harmless and effective birth control divices at affordableprices and sometimes free also.

5) Sterilization of male and female.

6) Legalization of Abortion in 1972.

B Population Policy of 2001:

In the year 15th February 2000 Govt. of India declared the National population policy with a view to encourage two child norms and aim at stabilizing the population up to 2046. Implementation of this policy has been started from May 2001.

1. To control birth rate 2.5 to 2.1 up to 2004.
2. To minimizing Infant mortality and material mortality.
3. To increase the access of medical facilities in rural area, hilly area etc.
4. For the success of this policy several agencies help should be taken.
5. To increase health services and its quality.
6. Expand safe abortion facilities.
7. To give more facilities for two child family.
8. To give health Insurance plan to the BPL family.
9. To popularize the family welfare policy.

Table No. 1

Project population on March 2001-2026

Particulars	2001	2011	2021	2026
1) Population (millions)	1029	1192	1340	1400

2)	Male (millions)	532	617	694	725
3)	Female (millions)	496	575	646	675
4)	Sex Ratio	933	932	930	930
5)	Urban Population	286	358	433	468
6)	Population Density	313	363	408	428
7)	Population Growth rate	1.6	1.3	1.1	0.9
8)	Crude Birth rate	23.2	19.6	18.0	16.0
9)	Crude Death rate	7.5	7.2	7.1	7.2
10)	Infant mortality or death rate	61.3	49.2	44.0	40.2

B Salient Features of Population Policy:

10. Small Family Principal :

In this policy Govt. has adopted the principle of small family. In this principle Govt. should give more incentives i.e. subsidies and promotion etc. where by small family can be maintained.

11. Input on confidential Report :

This is first policy of Govt. in which those coordinator, commissioner, Collector, CEO, corporation Commissioner, Tahasildar, Dist. Health Officer should work satisfactorily in population control, the remarks have been given to their reports which will be helpful for their promotions etc.

12. Explanation of Heath facilities :

On one hand Govt. had made more health facilities in rural and tribal area, on theother hand, Govt. had made compulsion to work two year in rural area to get post Graduate medical admission. The M.B.B.S. practitioner are also forced to work in ruralareas.

1) Special Camps for family welfare :

In this programmes, Govt. advices to Government hospitals and the Co-op. Societies for organizing special camps for family welfare etc.

2) Implementation of previous Acts :

More attention has been given for implementation of previous family welfare act byGovt. of

India. The Acts are such as prohibition of child marriage Act 1978, Marriage Registration Act 1998 etc should be implemented effectively.

3) Improvement of Health Services quality :

In this policy, Govt. of India concentrate for improvement of Health service qualityto ensure better health services to the needy people.

4) Child-mother care center :

In the 2001, population policy Govt. of had started child-mother care center to the rural, urban and tribal areas. These centers should give number of health facilities tothe BPL and non BPL families in the country.

5) Compulsory Registration of marriage & Delivery :

In this programmes, Govt. had given more attention on registration of marriage, Delivery, fertility and infant mortality etc which enable us to know the facts of demographic scale.

6) State population women commission :

In the population policy 2001, Govt. of India has also established state population women commission under the chairmanship of wife of chief minister. This commissionworks for women welfare and increase women participation for the success of new population policy.

7) To take help of SHGs :

In this policy, Govt. had advised to take the help of the self-help Groups to achieve the objectives of population policy.

In this way, Govt. of India adopted the new population policy in 2001 which has created best effect on controlling of birth rate as well as death rates in India.

2.2.4 Check your progress :

1. Choose suitable alternatives and answer the following question given below –

i) Population policy means the policy of Govt. regard to …………..

(a) controlling birth rate (b) raising the population

(c) Transferring population (d) efficiency of population.

ii) is very effective method for controlling birth rate in India.

(a) Chasity (b) Morality

(c) Male-female sterilization (d) Other than above

iii) State population women commission established in year ………….

(a) 1951 (b) 1991 (c) 2001 (d) Other than above.

iv) Marriage Registration Act was passed in India in ………….

(a) 1951 (b) 1998 (c) 1991 (d) Other than above.

v) Latest population policy in India was introduced on …………..

(a) 2011 (b) 2013 (c) 2001 (d) 2013

2.2 Summary:

The prime objective of the economy in every plan is ‘To control population Growth. The needs of society and country are increasing rapidly and the available resources are becoming limited. Thus Govt. has tried to control the problem of population.

Sometimes the size and Growth of population became boom and sometime bane. The systematic projection or counting of population in India have been done in 1881. After that by every ten year counting of population was made up to 1921, here the growth of population was very slow, due to low Birth as well as Death rate. During 1921 to 1951 Birth rate was increased rapidly and Death rate declined slowly.
Under the topic of Demographic profile Birth rate and Death rate, sex composition, Age composition, the density of population Rural-Urban population, Literacy Ratio, Life expectancy etc. have been discussed. In case of sex composition male-female ratio has declined after 1951 on the other hand Age composition, dependency population was increased. In case of the density of population in India, density was increased. Soas size of land, sub-division and fragmentation of land has also increased. In case of Rural-Urban population urban population had increased after 1981. So number of problems related to urbanization had also increased. About Literacy Ratio in India, after 1951 because of fast increasing educational facilities and policy like compulsory education bellow 14 year, literacy rate has increased. But, female Literacy rate doesn’t increase as compared to male Literacy rate. In case of Life expectancy, India’s Life expectancy has also increased satisfactorily with view to population growth and Economic Development we find that the impact of population growth and its impacts on economic development has also been discussed. Declined land-man ratio, declinedrate of capital formation, sub-division and fragmentation food problem, unemploymentproblem, Inequality poverty were also discussed in detailed.

In the fourth sub-topic we discuss population policy of India. Before Independencethere was not a proper population policy. After Independence during 1952 to 1981 population policy for India was announced regularly. After 1981, population policy was converted in to Family welfare scheme, population education etc. In 2001 population policy the policy heavly concentrated on control of infant mortality rate and maternal mortality to increase the access of health facilities in rural urban and trible areas.

2.3 Terms to remember:

B CAGR Compound Annual Growth Rate.

B Density of population – average number of person living per Sq. K.M.

B Sub-division – Division of land in the family.

B Fragmentative – Land is divided on the basis of heirs.

B Unproductive population – Number of population depending on working population.

B Family planning – Deliberate attempt to limit the size of family.

B Family welfare – Family planning policy with mother and child care.

13. B SHGs – self-help groups for Combined Advantages of member.

2.4 Answer to check your progress

2.2.1 Answers

(i) b (ii) c (iii) b (iv) a (v) b

2.2.2 Answers

(i) a (ii) c (iii) b (iv) a (v) d

2.2.3 Answers

(i) – C (ii) – d (iii) - a (iv) – a (v) – a

2.2.4 Answers

(i) – a (ii) – c (iii) - c (iv) - b (v) – c

2.5 Questions for self-study:

1) Answer in Brief on following questions.

i) What are the reason of increasing population in India since Independence?

ii) Explain the obstacles of economic development in case of population in India.

iii) Discuss the 2001 population policy in India?

2) Write a short note.

i) India's size of population.

ii) Sex composition of population in India.

iii) Density of population.

iv) Literacy in India.

v) Family planning in India.

New Economic Reforms in India

3.0 Introduction:

The year 1991 will remain a year of notable and widespread changes in the policy for economic development in India. Soon after resumption of office on June 21, 1991,the Congress (I) Government adopted a number of stabilization measures that were designed to restore external and internal confidence. The government has made someradical changes in its policies regarding foreign investment, trade, exchange rate, industry, banking and fiscal affairs, etc. These various elements taken together constitute an economic policy. Since July, 1991 Government of India has announced several newpolicies under the name of 'New Economic Reforms'. The new economic reforms gave a new direction and dimension to the Indian economy. This chapter analyses new economic reforms i.e. major financial, fiscal and external sector reforms and related aspects of the new economic reforms.

3.1 Presentation of subject matter:

The economic reforms initiated the process of structural adjustments in order tocorrect the distortions and weaknesses of economic policies. Economic planning in India was a mixture of achievements and failures. It more or less failed and did not produce any favourable results. While the rate of economic growth showed some increase, it was slower than anticipated. Even after four decades of planning, 36 percentof population lived under condition of poverty is a sad commentary on our planning. It failed to reduce inequalities of income and wealth. Before the process of reform began in 1991, the government attempted to close the Indian economy to the outside world. At that time infrastructure investment was poor because of the public sector monopoly. But there was more scope for achievements even in this areas. It was felt that some of the major policy were followed.

3.1.1 Needs of economic reforms :

i) To achieve higher growth rate :

One of the basic objectives of economic planning in our country is to increase national income and per capita incomes. However, the low manual growth rate of the economy before 1980. Which stagnated around 3.5 from 1950s to 1980s, while per capital income averaged 1.3 percent. Some of the other developing countries were experiencing a far higher rate of economic and industrial growth than India. At that time, Pakistan grew by 5 percent, South Korea by 10 percent. Taiwan by 12 percent, Indonesiaand Thailand by 9 percent. Thus, it was needed to have new economic reforms in India.

ii) Reduce the Poverty and unemployment level :

The basic objective of planning is the provision of a national minimum level of living and providing employment to all able bodied persons. However, after four decades of planning 36 percent of population lived below poverty line. According to the planningcommission the backlog of the unemployed persons was 7.5 million at the end of eighth plan. Even though Industrial growth was taking place, employment in industry was notincreasing proportionately.

iii) Productivity :

The public sector enterprises and overall economy were facing the problem of low productivity. Low productivity in agriculture, industry and in other sectors reduces income of these sectors and nation. In this context, economic reforms through its market mechanism will improve productivity of workers and various sectors of theeconomy.

iv) Control Inflationary pressure :

Indian economy was facing a strong inflationary pressure. The inflationary pressure was concentrated in primary commodities such as food grains, vegetables, sugar and edible oils. It means that prices of essential commodities were rising rapidly. The seriouseffects of inflation were on the distribution of income in India. Inflation increase povertyand gross inequality of income and wealth.

v) Storage of foreign exchange :

Indian economy had experienced shortage of foreign exchange. Indian economy had experienced some rise in exports. But rise in imports was for more. The trade deficit has been continuously widening, except during the forth plan when the government made a great and successful effort to reduce imports and promote exports. The situation worsened during the seventh plan when current account deficit in balance of payments aggregated to a large figure of Rs. 41,047/- crores.

vi) Share of the world trade :

Until the new economic reforms of 1991, India was largely and intentionally isolatedfrom the world markets. India's share of world merchandise exports was 2.2 percent in 1948, higher than china's 0.9 percent or Japan's 0.4 percent. This share had declinedto less than half a percent i.e.

0.5 percent in 1983. It was necessary to expand its share in the world share for competing with some of the industrially advanced economics ofthe world.

vii) Shortage of finance :

Finance is a crucial ingredient for economic growth. It has been realized that themode of provision of industrial finance is an important for fostering industrial growth. The economy was experiencing shortage of finance for industrialization. These shortages were suppressing industrial growth and growth of the economy.

viii) Persistent fiscal deficit :

India had been experiencing maintenance of persistent fiscal deficit. The gross fiscal deficit of the central government rose from 6.1 percent of GDP in 1980-81 to 8.3percent in 1985-86 and to 84.4 percent in 1990-91. These deficits had to be met by borrowings resulting from internal debt to the government increased from 35 percent of GDP at the end of 1980-81 to 53 percent of GDP at the end of 1990-91. The economic reforms has made a sincere attempt to check this fiscal deficit.

ix) Unnecessary regulations and controls :

Government was controlling and regulating the growth of industry through a system of licensing. License raj established the irresponsible, self-perpetuating bureaucracy
That still exists throughout much of the country and corruption flourished under this system. The new economic reforms has saved the industrial sector from unnecessary regulations and controls of the government.

x) Foreign investment :

India was caught in a vicious circle of poverty. The per capital income of the countrywas very low. India had inadequate domestic resources for the purposes of economicgrowth. There were several restrictions on the participation by foreign investors in the Indian industries. The economic reforms have made provisions for increased flow of foreign direct investment, which would help technical assistance for overcoming technological backwardness and promotes economic growth. The need for foreign aidand technical assistance arises to enable the country to build up the much required socio-economic infrastructure. It promotes industrialization, accelerates economic development and this in turn provides gainful employment.

Thus, for removing all these problems of Indian Economy, economic reforms in various sectors of the economy was required. Reforms increases productivity, profit,growth rate of the economy, employment opportunities in the developing country etc. Therefore, new economic reforms is the need of the hour in developing countries likeIndia.

3.1.2 Nature of economic reforms :

Although economic reforms were introduced under the Rajiv Gandhi regime, but they did not yield the desired results. After resumption of office by P. V. Narshimha Raoon June 21, 1991. Second phase of economic reforms were adopted as a stabilization measures and structural adjustments that were designed to restore internal and external confidence. The nature of new economic reforms / policy can be stated as below:

i) Liberalization :

The fundamental feature of the new economic reforms is that it provides freedom to the entrepreneurs to establish any industry / trade / business venture. The meaningof the economic liberalization freedom for economic decision. It means producers, owners and consumers of factors of production all are free to take their decisions to promote their self-interest. Government announced liberalization policy in the industrialsector, external sector (foreign trade exchange rate), baking and financial sector, fiscal sector etc. The capital markets have also been freed and opened to the private enterprises. Since 1991 foreign equity participation upto 51 percent or more was allowed. Industrial sector was de-licensed. MRTP Act was abolished. Infrastructure sector wasopened upto the foreign investments. Foreign Exchange Regulation Act (FERA) was amended and foreign Exchange Management Act (FEMA) enacted.

ii) Extension of privatization :

Another feature of the new economic reforms is the extension in the scope of privatization. According to D.R. Pendse, privatization is a process which reduces, theinvolvement of the state or public sector in country's economic activity. The basic objective of privatization everywhere is to improve the performance of public sector undertakings so as to lessen the financial burden on tax payes. In the wave of privatization, out of 17 industries reserved for public sector, 11 industries have been given to the private sector. The scope of privatization has further been extended by offering greater opportunities of investment to the foreign private investors.

iii) Globalization of economy:

The new economic reforms/policy has made the economy outwardly oriented. Globalization refers to a process of increasing economic integration and growing economic interdependence between countries in the world economy. Economic liberalization and privatization of public sector enterprises ultimately lead to globalization of the economy. In other words, globalization is nothing but flow of capital, commodities, technology and labour across the national boundaries. Now economic activities are tobe governed both by domestic market as also the world market. In fact, this has becomepossible by the various policy initiatives taken by the government of india. Now, the rupee has been made fully convertible on current account.

iv) New public sector policy:

The public sector has been central to our philosophy of development. The industrial policy resolution of 1956 gave the public sector enterprises in the hope that it will help to accumulate capital, industrialization, economic growth. But, none of these objectiveswere achieved. So, the government will strengthen only those public enterprises which are in priority or are generating reasonable profits. Competition will also be induced in these areas by inviting private sector participation. Thus, new economic reforms are trying to shift the emphasis from public to the private sector.

v) Market friendly state:

The role of the state is one that it confined to selected non-market areas and is largely to ensure a smooth functioning of the market economy. It has rightly been saidthat the market can be good servant when it is intelligently utilized but a bad master when it is allowed to have a free play. As compared to past, the ownership of some selected enterprises has been transferred to private sector. Now, the state will intervenein the market when it fails, because, regulations and controls of the state have resultedin wastage of national income, wastage of time and it have the bred of corruption at various levels. The state has to ensure stability in the market through the use of macroeconomic policies.

vi) Modernization:

New economic policy accorded high priority to modern techniques. Lock of advanced and sophisticated technology, developing countries are unable to exploit the vast natural resources in their country. New economic reforms aims at to import technical dynamics to Indian industry. For this, government decided to clear all foreign collaborations, Government has also been trying to stimulate research and development centers by offering various tax concessions. Efforts are also being made to revive and modernize the sick industrial units both within the public sector and private sector.

3.1.3 Paradigm of economic reforms in India since 1991 :

Government of India accepted and adopted the new economic reforms. The neweconomic reforms gave a new direction and dimension to the Indian economy. Following table shows paradigm of economic reforms in India since 1991.

Table.1: Paradigm of economic reforms in India since 1991

Pre-Reform Period	Post-Reform period

1. Quantitative licensing on trade and industry.	1. Abolition of industrial and trade licensing.
2. State regulated monopolies of utilities and trade.	2. Removal of state monopolies, privatization and disinvestment.
3. Restriction of foreign investment and technology.	3. Liberal regime for FDI, portfolio investment, foreign technology.
4. Government control on finance and capital markets.	4. Liberalisation of financial and capitalmarkets.
5. Foreign exchange control, no convertibility of rupee.	5. Abolition of exchange control, full convertibility on current account.
6. Import substitution and export of primary goods.	6. Export promotion and export diversification, no import bias.
7. Closed economy.	7. Open economy.
8. High duties and taxes with multiplerates and large dispersion.	8. Reduction and rationalization of taxes and duties.
9. Self-reliance.	9. Integrate with world markets.
10. Explicit subsidies on food, fertilizersand some essential items.	10. No change budget subsidies on LPG, Kerosene.
11. Frequent state interventions.	11. Selective and effective state interventions.
12. Sector-specific monetary, fiscal and tariff policies.	12. Sector-neutral monetary, fiscal and tariff policies.
13. Not much concern for deficit.	13. Contain all kinds of deficit.
14. Hidden subsidies on power, urban transport, public goods.	14. No change, but user charges are being rationalized and subsidies targeted.

3.1.4 Check your progress :

Fill in the blanks with appropriate words from the alternatives:

i) Government of India adopted new economic reforms in ____________a) 1991, (b) 1997 (c) 2001 (d) 1891

ii) There were controls on the growth of industries through a___________system.

a) market, (b) licensing (c) both (d) None of these

iii) Basic objectives of economic planning of our country are ___________

a) To increase national income (b) To provide employment
(c) To reduce poverty (d) all above

iv) Means freedom for economic decisions.

(a) Economic liberalization (b) Privatisation

(c) Globalization (d) (A) and (B)

v) ___________Is a process which reduces the involvement of the state or public sector in country's economic activity.

(a) Liberalisation (b) Privatisation (c) Investment (d) None of these

vi) ___________Refers to a process of increasing economic integration and growing economic interdependence in the world.

a) Liberalisation b) Privatisation c) Globalisation d) None of these

vii) India's share of world merchandise exports was___________percent in 1983 (a) 2.2 (b) 4.0 (c) 0.1 (d) 0.5

3.2 Major financial sector reforms:

As the economy grows and becomes more sophisticated the financial sector hasto develop so that it supports and stimulates such growth. With increasing global integration, the Indian financial system has a whole had to be strengthened so as to be able to compete. The main objectives of the financial sector reform process have beento:

i) Remove financial repression that existed earlier.

ii) Provide operational and functional autonomy to institutions.

iii) Create an efficient, productive and profitable financial sector industry.

iv) Determine market rate of interest for helping efficient allocation of resoures.

v) Promote the maintenance of financial stability even in the face of domestic and external shocks.

vi) Prepare the financial system for increasing international competition.

The government appointed a high level committee. On the financial system under the chairmanship of M. Narasimham in August 1991 a committee was appointed to look into all aspects of the financial system and make comprehensive recommendations for reforms. The committee submitted its report within three months i.e. in November1991, making a number of recommendations for reforms in the banking sector and inthe capital market.

3.2.1 Banking sector reforms :

The government also appointed the committee on banking sector reforms under the chairmanship of M. Narsimham which submitted its report in April 1998 Government of India accepted all the major recommendations of Narasimham committed despite stiff opposition from bank unions and political parties in the country. These reports arelandmark documents and have influenced greatly the banking sector reforms during the past few years. The following measures have been implemented as a part of bankingreforms.

i) Statutory liquidity Ratio (SLR) :

Statutory liquidity ratio refers to that portion of total deposits of a commercial bank which it has to keep with itself in the form of liquid assets or government security holdings. Government has taken place some liberalization to the cash reserverequirements (CRR) and the separate requirement for mandatory investment in government securities through the statutory liquidity ratio. At one stage, the SLR was 40 percent. The Narsimham committee on the financial system recommended a reduction in the SLR to 25 percent by 1996. The government has now succeeded in reducing it drastically. The effective SLR from October 25, 1997 on incremental net demand and time liabilities (DTL) has been reduced from 38.5 percent in 1991 to 25 percent. Now, from December 18, 2010 SLR is 24 percent.

ii) Cash Reserve Ratio (CRR) :

Cash reserve ratio refers to that portion of total demand and time deposits of a commercial bank which it has to keep with the reserve bank of India in the form of cashreserves. For a long time the government intervention in Indians banking sector was inthe form of high SLR and CRR. At one stage, the CRR applicable to incremental depositswas as high as 25 per cent. This policy benefited the government as it reduced the costof borrowing. The Narasimham Committee recommended a reduction in CRR. Government reduced CRR to 13 per cent by May 1996 and at the same time, the incremental cash reserve ratio (ICRR) of 10 percent was abolished. In April 2010, CRR was at 6 per cent. The purpose of this reduction was to release funds locked up with RBI for lending to the industrial and other sectors which were starved of ban credit. The reserve bank is improved to vary the CRR between 3 per cent and 15 per cent of the total demand and time liabilities.

iii) Deregulation of interest rates :

Interest rates in the banking system have been liberalized very substantially compared to the situation. The Chakravarty committee and the Narasimham committeehad recommended that banks should have some freedom to vary their lending rates ofinterest, subject to some minimum rate fixed by the RBI and not the maximum. Startingin April 1992, the structure of interest rates has become much freer and simpler. Theimportant changes in interest rates are as follows:

(a) Interest rate on domestic term deposits above one year has been decontrolled.

(b) Rate of interest on bank loans above Rs. 1 lakhs has been fully decontrolled.

(c) The interest rates on deposits and on advances of all co-operative banks (except urban co-operative banks) has been deregulated.

(d) The prime lending rate of banks on general advances of over Rs. 2 lakhs has been deregulated.

iv) Prudential measures :

Financial markets need supervision to prevent criminal fraud as well as financial panic. Supervision and regulation are necessary for healthy growth of the banking system. The current international consensus is in favour of imposing minimum capital requirements on banks. The recommendations of the Narsimham committee were accepted by the government and in April 1992 RBI issued guidelines for income recognition, asset classification and provisioning and adopted the Basel capital adequacystandards. The purpose of prudential norms is to ensure that the books of the commercial banks reflect their financial more accurately and in accordance with internationally accepted accounting practices. Prudential norms required banks to make 100 percent provision for all non-performing assets (NPAs). Non-performing loans are classified as sub-standard, doubtful and lost, depending on how long they have been non-performing. As for capital adequacy ratio, banks, were expected to reach a 9 percentcapital to risk weighted asset ratio (CRAR)

v) Capital Adequacy Norms :

As earlier, said that capital adequacy norms were fixed at 9 percent and were expected to comply within three years. In line with Basel I norms of capital adequacy,risk weighted capital norms were implemented as recommended by M. Narasimham committee I. Narasimham committee II has recommended this ratio to be increased to 10 per cent. According to RBI’s declaration, Indian banks having foreign branches haveto migrate to Basel II norms from march 31, 2008 while all other commercial banks have been permitted to adopt Basel II norms by march, 2009 excluding RRB’s and local area banks.

vi) Freedom of operation :

By 1991 the banking system had become extremely fragile due to the large proportion of non-performing assets. Government of India has given freedom to scheduled commercial banks to open new branches and upgrade extension courtersafter obtaining capital adequacy norms and prudential accounting standards. Recently,public sector banks have been permitted to raise equity form the market to the extent of 49 per cent of paid up capital. Public sector banks have been granted more freedom of action to make acquisitions of businesses, close or merge unviable branches and takeall decisions regaling HRD. They can close non-viable branches, but other than in rural areas. They also got the freedom of acquiring other state-owned and private banks, finance companies without seeking any permission from the government.

vii) Measures of enhance competition :

Until 1991, there was little competition in the banking sector. The public sector banks domination the banking now recognized the need to make banking industry more competitive. Entry of new banks in the private sector has been permitted with clearlylaid down guidelines. Simultaneously, the entry of foreign banks has been made more liberal. The government has granted permission to establish local area banks to meetthe local credit requirements by exploiting local resources itself. Till now RBI has granted its approval for establishing 3 such local area banks in Maharashtra, Andhra Pradeshand Karnataka (one each)

viii) Supervisory measures :

Supervision of commercial banks was being tightened by RBI, especially after thesecurities scam of 1992, RBI has established the board for financial supervision as the apex supervisory authority for commercial banks, financial institutions and non-banking financial companies. In December 1993, RBI has also established a new departmentknown as department of supervision as an independent unit. This unit is for supervisionof commercial banks and to assist the Board of Financial Supervision.

ix) Recovery of debts :

The recovery culture in the banking sector suffered badly from an ordinancedelay in court procedures. Another important point in the recovery of debts is that thenormal courts were not an efficient mechanism for resolution of bank's recovery cases. In order to facilitate and speed up the recovery of debts of banks and financial institutions, various new mechanisms and institutions have been created. It include setting up of Lok Adalat (Peoples courts), debt recovery tribunals, asset reconstruction companies, settlement advisors committees, corporate debt restructuring mechanism, etc. on August 22, 2002. The securitization and Reconstruction of Financial Assets and Enforcement of security Interest ordinance 2002 was promulgated. This allows banks and financial institutions to take possession of securities of defaulting companies and sell them to enable them to recover their debts from defaulters quickly.

x) Technology related reforms :

Banks will have to make changes on several fronts to deal with challenges including the upgradation of human skills, introduction of information technology, etc. Foreign banks and some of the new private sector banks are ahead of public sector banks inthe use of information technology. Use of technology enables banks to compete effectively. Now the banking sector in India is adapting itself to rapid innovations in technology particularly on the information based technology front. Computerisation of banking operations had received high importance since, 2006. Growth of ATMs has been observed to be 37.8 percent in 2009-10. The number of branches of the banks providing core banking solutions (CBS) in recent years have been increasing rapidly.

3.2.2 Other financial sector reforms :

The term financial market collectively refers to all these organizations and institutions which lead funds to business enterprises and public authorities. It comprises money market and capital market. Money market deals with the provision of short-term creditand capital market deals with medium term and long-term credit. Government of India has initial a number of steps to strengthen the Indian capital market. A brief discussionof some of the measures follows –

i) Capital Market reforms :

The capital market can be divided into financial institutions and the securities market. The securities market is divided into gilt-edged market (the market for government securities) and the corporate securities market. The functioning of capital market in India has shown many weaknesses, with long delays, lack of transparency and insider trading. To counter these shortcomings and to regulate the capital market, on the recommendations of the Narsimham committee, the Government of India set up the Securities and Exchange Board of India (SEBI) in 1988. It was given statutory recognitionin 1992.

SEBI has introduced various guidelines and regulatory measures for capital issue.In order to encourage Initial Public Offers (IPO) SEBI has permitted companies to determine the par value of shares issued by them. All stock exchanges in the country have been brought under the annual inspection regime of SEBI for ensuring orderly growth of stock markets and investor's protection. SEBI has notified regulations on insider trading under the provisions of SEBI Act. Retail trading in government securities of select stock exchanges commenced in January 2003. Now, SEBI has taken a boldstep to give a big boost to equity trading by allowing mobile trading.

ii) Insurance Sector :

The insurance sector was opened for private participation with the enactment of the Insurance Regulatory and Development Authority (IRDA) Act, 1999. The IRDA Actends the monopoly of the Government in the insurance sector because it seeks to promote the private sector in the insurance sector. RBI has given permission to only state Bank for performing insurance business in India. State Bank group has constituted

'SBI Life Insurance company' and entered into life insurance sector. Postal life insuranceis used to promote life insurance business in rural areas.

iii) Money Market reforms :

The Government and RBI have taken various measures to strengthen the Indian money market in recent year. Over the past two decades major money market instruments have been introduced. These are 182 day Treasury bill, 364 – day treasury bills, certificates of Deposit (CDs) and commercial papers (CPs). These are an asset(instrument) which banks use for short-term liquidity management.

iv) Mutual funds :

Money market mutual funds were introduced in India in April 1991.The growth ofmutual funds has been far less than expected. The Narsimham committee recommended the creation of an appropriate regulatory framework to promote sound, orderly and competitive growth of mutual fund business. Now several public sector banks and financial institutions have set up mutual funds on a tax-exempt basis. SEBI has initiated a number of steps to increase investors' confidence in mutual funds.

v) Development financial Institutions (DFIs) :

IFCI, EXIM Bank, SIDBI, SFCs, LIC etc. are the development financial institutions, which provide long-term and medium term loan facilities. The Narasimham committee has both appreciation and criticism on DFIs. Financial assistance has increased by leaps and bounds particularly during the last two decades. The Narasimham committee had proposed that DFIs should adopt internationally accepted norms, restore capitaladequacy. Government of India has initiated a number of steps to strengthen the DFIs. The access of financial institutions to SLR and other concessional funds has been reduced and they are now encouraged to approach capital markets. In March, 1994, RBI issued guidelines on prudential norms. The DFIs have been diversifying their operations and reorienting their business strategies, for example IDBI has set-up a venture capital fund for small scale industries (SSI) units.

B Check your progress –

Fill in the blanks with appropriate words from the alternatives.

1) Insider trading is related to ____________

a) Share market b) Taxation

c) Public expenditure d) Licensing

2) Which of the following is a financial regulator?

a) IRDA b) SEBI c) Both d) None of these

3) The reserve banks is empowered to vary the CRR between________to______per cent of the total demand and time liabilities.

a) 3 to 10 b) 5 to 15 c) 3 to 25 d) 3 to 15

4) SEBI was given statutory recognition in _________

a) 1988 b) 1991 c) 1992 d) None of these.

5) The government appointed a committee on the financial system under the Chairmanship of_______in 1991

a) Dr. Manmohan Sinh b) M. Narsimham

c) P. Chidambarum d) None of these

3.3 Major fiscal sector reforms:

B Fiscal policy means taxation and expenditure policy of the Government:

Fiscal policy is a policy under which the government uses its revenue and expenditure programmes to produce desirable effects and avoid undesirable effects on national income, production and employment. It operates through the budget. In fact, it is also known as budgetary policy. Major components of India's fiscal sector reforms include tax reforms, expenditure reforms, and public sector restructuring, systematic reforms in government's borrowing process, FRBM Act and fiscal consolidation. These reforms help to raise the rate of saving and investments in India, which further enhancesthe productivity of public expenditure.

i) Tax reforms :

The government appointed a committee under the Chairmanship of Dr. Raja J. Chellian to examine the tax structure and make recommendations for making the tax system more broad-based, elastic and simplified. Ministry of Finance had alsoconstituted a task force on tax reform under the Chairmanship of Mr. Vijay Kelkar. Government has accepted major recommendations of these committees. Tax reformscan be divided into direct tax reforms and indirect tax reforms. Following are the majortax reforms:

a) Direct tax reforms :

i) Government has changed income tax slabs in the globalization era. New income tax slabs for individuals is as follows :

	Income Slabs	Income tax rates
i)	Upto Rs . 2,00,000	Nil
ii)	Rs. 2,00,000/- - Rs. 5,00,000/-	10%
iii)	Rs. 5,00,000/- - Rs. 10,00,000/-	20%
iv)	Rs. Above 10,00,000/-	30%

ii) The Direct Tax code Bill (DTC Bill) has been tabled in the parliament on August30, 2010. The new Direct Tax code which replace 50 years old Income Tax Act 1961. It represents a drastic change in the taxation mechanism and is bound to have a profound impact on individuals as well as corporate.

ii) The Direct Tax code Bill (DTC Bill) has been tabled in the parliament on August30, 2010. The new Direct Tax Code which replace 50 year old Income Tax Act1961. It represents a drastic change in the taxation mechanism and is bound to have a profound impact on individuals as well as corporate.

ii) The corporate tax rate in India is at similarity with the tax rates of the other nations worldwide. The corporate tax rate is India for domestic company is 30 percent, which was 67 percent in India.

b) Indirect tax reforms :-

i) India has been marketing its best efforts since long to modify the prevailingsales tax structure. As per the recommendations of the L. K. Jha committee,the value added tax (VAT) has been adopted to a limited number of manufacturing industries. Later on it was adopted under the name – CENVAT (April 2001) states and Union Territories (UTs) have also introduced value added tax (VAT) on April 1, 2005. The introduction of VAT by centre and states resulted the desired growth in tax revenue in the last few years.

ii) Service tax is a tax on services produced. The basic objective of service tax is broadening the tax base, augmentation of revenue and larger participationof citizens in the economic development of the nation. The then Finance Minister Dr. Manmohan Singh introduced service tax in 1994. Covering only three services. Revenue from service tax shows increasing trend, particularlyfrom 2002-03 due to broadening of the tax base and enhancement of tax rate.

iii) The goods and services Tax (GST) is a value added tax to be implement in India, the decision on which is pending. It will replace all indirect taxes levied on goods and services by the Indian central and state governments. According to 13th Finance Commission a unified GST on a comprehensive base is feasible, reckons the commission, if all exemptions are removed, indirect taxes and cess are integrated into GST and the tax is levied with systematicand logical way.

To conclude, significant changes took place in India's tax system, these are –

i) Better tax administration and the rationalization of the tax rates;

ii) Simplification of tax structure and tax laws;

iii) Long term fiscal policy that removed uncertainty of tax changes.

2) Expenditure reforms :

Government of India appointed Expenditure Reforms Commission under the chairmanship of K. R. Geethakrisnan in February 2000 to look into ways and means of reducing wasteful government expenditure. The report converted food subsidy, rationalizing fertilizer subsidies, optimizing government staff strength and downsizingof government.

Total expenditure of the central government as a proportion of GDP has decreasedfrom 16.5 percent in 1991-92 to 14.6 percent in 2013-14. In it, a large part of total expenditure (80 to 65 percent) has been accounted for the items namely interest payments, pensions and other retirement benefits, defense and subsidies, which has placed a difficult burden on budgetary balances. Capital-expenditure – GDP ratio haddecreased from 3.9 percent of GDP in 1991-92 to the level of 1.7 percent of GDP in 2011-12. The quality of expenditure has also witnessed deterioration over the years as the share of capital expenditure declined. A tremendous increase in the share of expenditure on revenue account of the central government is accounted for by the decline in the share of capital expenditure in the post-reform period.

The expenditure on serial sector services as a proportion of total expenditure has increased from 21.1 percent in 2005-06 to 25.2 percent in 2010-11. It means that govt.is giving importance to this sector in post-reform period.

3) Subsidy reforms :

Subsidy reform can help India in better way. Most of subsidies fail to benefit thepeople for whom they are theoretically intended. Subsidies produce unintended economicdistortions, it foster corruption and lastly, it put a distortions, it faster corruption and lastly, it put an inordinate stain on the budget. Recently. Government introduced a major reform in the subsidy system in the country. Government of India is transferring cash directly into the bank accounts to the beneficiaries of subsidized LPG, Kerosene andfertilizer to curb pilferage and leakages.

4) FRBM Act :

The committee on fiscal responsibility legislation was constituted on 17th January, 2000 to go into various aspects of the fiscal reforms and recommend suggestions on fiscal responsibility Act. The fiscal responsibility and budget management act 2003 (FRBM, Act) is a legislation enacted by the parliament of India to institutionalize financialdiscipline. The central government is empowered to take steps to eliminate the revenue deficit, bring down the fiscal deficit and build up adequate revenue surplus. The Act binds not only the present government but also the future Government to adhere to thepath of fiscal consolidation.

5) Outcome budget :

Outcome budget has been introduced in 2005-06. It stresses on the outcome (consequences) as opposed to output. It measures development outcomes of all government programmes. The concept has developed in many democracies to make budgets more cost effective. Outcome budget have become an integral part of the budgeting process. Outcome budget 2013-14 broadly indicate the physical dimensions of the financial budgets as also the actual physical performance in 2011-12.

6) Fiscal consolidation :

Fiscal reforms were included as a part of economic reforms initiated from 1991. The fiscal reforms must be an ongoint process. Fiscal consolidation will be on top of the government's agenda. It aims at improving tax and non-tax receipts through completion of the tax reform agenda, reprioritizations of expenditures, curb wasteful expenditure targeting non-merit subsidies and phasing them out etc.

B Check your Progress:

Fill in the blanks with appropriate words from the alternatives:

1) Dr. Raja J. Chelliah committee gave recommendations on the field of ________

a) Banking sector b) External Sector

c) Tax reforms d) Sick industries

2) Mr. Vijay Kelkar task force gave recommendations on the field of________.

a) Banking sector b) External sector

c) Tax reforms d) Sick industries.

3) Service tax is introduced in _______

a) 1991 b) 1992 c) 2001 d) 1994

v) States and union Territories introduced value added tax (VAT) in _____ a) April 1, 2005 b) April 1, 2006 c) April 1, 2010 d) April 1, 2011 The Fiscal Responsibility and Budget Management Act, (FRBM Act) enactedby the Parliament of India in ____

a) 1991 b) 2003 c) 1999 d) 2011

vi) Fiscal sector reforms include ________

a) Tax reforms b) Expenditure reforms

c) Fiscal consolidation d) all above.

3.4 Major external sector reforms:

The external sector compresses India's foreign trade, balance of payments, exchange rate management, trade in services, EXIM policy. After independence, India embarked on a strategy of development, which envisaged a pivotal role for the government and the public sector in shaping India's economy. In these period Indian foreign trade has made cumulative progress with qualitatively and quantitatively. On the eye of planning, the foreign trade of India showed on excess of imports over exports. After independence, the size of foreign trade and its value both have increased tremendously. However, this increase in foreign trade cannot be said satisfactory because India has always experienced a trade deficit. The trade deficit has been continuously widening except during the fourth plan. It result in balance of paymentscrisis in 1991. The current account deficit was 3.2 percent of GDP in 1990-91. India's share in total foreign trade of the world has remained remarkable low. India's share in the total world trade was 1.78 percent in 1950, which came down to 0.6 percent in 1995. India was facing an external payment crisis with foreign currency assets less than $1 billion, just enough to cover two weeks of imports. In 1991, new economic reforms were initiated and an effort was made to step up exports so that a major part of the import bill is paid by exports. Following are the external sector reforms –

i) Current Account :

Balance of payments accounts consists of two accounts - current account and capital account. Current account includes items such as merchandise, non-monetary gold movements, transportation, travel, insurance, transfer payments. If value of exports exceeds the value of imports, it is called favourable balance of trade. On the other hand, if the value of imports exceeds exports, the balance of trade will be unfavourable. In 1992-93, current account deficit was 1.7 percent of GDP, imports grew by 15.4 percent in balance of payments basis, while the growth of exports was just 3.3 percent on balance of payment basis. After recording a surplus for three years (2001-02, 2002- 03 and 2003-04), the current account once again recorded a deficit of 0.4 percent of GDP in 2004-05 and 4.2 percent of GDP in 2011-2012. Due to government's great andsuccessful efforts to promote exports, exports have increased from $ 18.5 billion to $309.7 billion between 1991-92 and 2011-12. Although exports have grown during the last two decades they have not kept up with the growth in imports. Merchandise imports have increased from $ 27.9 billion to $ 499.5 billion ($ 189.8 billion deficit) between 1991-92 and 2011-12. It means that, the merchandise trade balance has worsened significantly over the last two decades.

ii) Capital account :

Capital account includes items such as private and public loans from rest of the world, amortization, banking official reserves, etc. It means that capital account is relatedwith the entries of capital transactions in the country. The ongoing current account deficit have been financed by capital inflows; hence a surplus on the capital account.Inflows on capital account were much larger than the deficits on current account over the period 1993-94 to 2000-01. Compared to 1990-91, when foreign direct investment(FDI) constituted a small portion of the overall capital account, they are estimated to comprise close to 60 percent of the capital account in 2011-12. The surplus capital flows in excess of current account deficit existed through most of the last decade andwe continued to accumulated reserves. The balance of payments situation, since 1991 has been quite satisfactory. This happened mainly because of the policy decision on the exchange rate.

iii) Tariff reform :

India's custom tariff rates have been declining from 1991. The 'peck rate came down from 150 per cent in 1991-92 to 20 percent in 2005. By April 1990 the Open General Licensing (OGL) imports had come to account for approximately 30 percent oftotal imports. Tariff rates have been declining substantially in the post reform period. In 1991, thirty-one sector had been freed from industrial licensing. Traditionally, India had restricted exports of several commodities. In the new economic reforms, the Government began to reduce the number of products subject to export controls in 1989-90. It is evident from the above that India has drastically reduced the level of tariff,particularly industrial tariff, in recently since 1991. In order to reduce the anti-export bias internet import and indirect tax regime, a number of exemption schemes have been introduced to increase exports.

iv) Exchange rate policy :

The exchange rate is the price of a country's currency in terms of another country'scurrency. In September 1975, the government of India delinked the rupee from poundsterling. At that time government directed to RBI to determine exchange rate of rupeewith respect of the exchange rate movements of the basket of currencies, viz, U.S. dollar, pounds, yen etc. Though there has been improvement in India's balance of payment positions and foreign exchange reserves, the rupee has continued to depreciatesince 1991-92. In mid-1991. India's exchange rate was subjected to a severe adjustment. In 1991 India still had a fixed exchange rate system. Where the rupee was pegged to the value of basket of currencies of major trading partners in that year. The Indian government permitted to sharp depreciation of rupee against major currencies. During 1992-93 the government of India introduced a dual exchange rate system in India i.e. the official rate of exchange, which was being controlled by RBI and the market rate ofexchange, which was free to move or fluctuate according to market conditions.

v) FEMA :

Foreign exchange regulated act (FERA) was promulgated in 1973 for regulating foreign exchange. The principle objective of the FERA is to prevent the outflow of theIndian currency. The entire focus of this act was on regulating all transactions and dealings in foreign exchange and imposing restrictions on foreign companies. After the new industrial and trade policy was announced in 1991, government simplified provisions of FERA. In the budget of 1997-98, the government had proposed to replace FERA- 1973 to FEMA (Foreign Exchange Management Act.) Under FEMA – 1999 provisions related to foreign exchange have been modified and liberalized so as to simplify foreigntrade and payments.

vi) Convertibility of the Rupee :

The existence of the dual exchange rate hurt exporters and Indians working abroad. In the budget proposals of 1994-95 Government adopted full convertibility of the rupee on current account and abolished double exchange rate system for exports and imports and implemented Liberalised Exchange rate Management system (LERMS) based on open market exchange. Convertibility of money implies such a system in which country'scurrency becomes convertible in foreign exchange and vice-versa. On July 31, 2006, RBI constituted Tarapore Committee for suggesting road map on full convertibility of rupee in capital account convertibility to India. viz., availability of large funds to domestic resources and thereby promote economic growth, improvement of the financial systemin the context of global competition.

vii) Foreign trade policy :

During recent years, because of increasing focus on trade liberalization and globalization, foreign trade policy has assumed great significance. The period after 1991, has been market by a substantial liberalization of the trade policy. Commene minister Mr. Anand Sharma on August 27, 2009 released. The Foreign Trade Policy forthe period 2009-14. The main features of the new trade policy as it has evolved over the years since 1991 are as follows:

1. In line with India's commitment to the WTO quantitative restrictions on all import items have been withdrawn.
2. Chellian committee has advocated drastic reductions in import duties. The

government reduced rate of duty. The peak import duty on non-agricultural goods is at now 10 per ant.

3. Foreign trade policy 2009-14 extended zero duty export promotion capital goods (FPCG) scheme by one year to March 31, 2012.
4. Government announced steps to reduce transaction cost of exports.
5. It introduced single window scheme for farm products.
6. Zero duty under technology upgradation scheme.

Provision of state-run banks to provide dollar credits. B Check your progress:

Fill in the blanks with appropriate words from the alternatives.

i) The official exchange rate of Indian rupee is assoriated with ____________

(a) Pound sterling (b) Dollar

(c) SDR (d) A basket of selected currencies

ii) The main security guard of international countries trade is ____________

(a) IMF (b) World Bank (c) WTO (d) IFC

iii) Balance of payment accounts consists of____________

(a) Current account (b) Capital account

(c) Current and Capital account (d) none of these

iv) government adopted full convertibility of the rupee on current account in ___(a) 1973-74 (b) 1990-91 (c) 1992-93 (d) 1994-95

v) Which committee among the following was associated with full convertibilityof rupee on capital account?

(a) Vaidyanathan Committee (b) Dr. Rangajan Committee

(c) Tarapore Committee (d) None of these

vi) The government enacted Foreign Exchange Management Act (FEMA) in _________

(a) 1992 (b) 1993 (c) 1999 (d) 2007

3.0 Summary:

Since July 1991, the government has taken both stabilization programmers andstructural reforms as two components of the economic reform packages. Macroeconomic stabilization involves returning to sustainable fiscal and balance of payment position. Structural reforms include trade and capital flows reforms, industrial deregulation. Public sector reforms and disinvestment and financial sector reforms. Within the economy though growth rate has moved up. The performance is from a satisfactory. Both stabilization and structural reforms locks sustainability.

3.5 Terms to remember:

i) Fiscal deficit: This the gap between the government's total spending and the sum of its revenue receipts and non-debt capital receipts.

ii) Financial market: Financial market comprises of money market, capital market, discount market, stock exchange or securities market, foreign exchange market which are considered suitable and essential for carrying on trade and commerce.

ii) Income Tax: Tax imposed on incomes viz, individuals, Hindu undivided families, companies etc.

iv) Public expenditure: Expenditure incurred by the government for public welfare and maintenance of public systems.

v) Value Added Tax (VAT): Tax imposed on the value addition made contributed by a taxable entity with a provision of refunding the amount of VAT already paid at theearlier stages.

vi) Tariff : It is a tax or a duty on imports, which can be levied either on physical units e.g. per ton (specific) or on value (ad-valorem)

vii) Stabilization policy: It is government economic policy announced at reducing the cyclical and other fluctuations that take place in a market economy.

3.6 Answers to check your progress:

3.2.4	(i)	(A)	:	1991
	(ii)	(B)	:	Lincensing
	(iii)	(D)	:	All above
	(iv)	(A)	:	Economic liberalization
	(v)	(B)	:	Privatisation

	(vi) (C)	:	Globalisation
	(vii) (D)	:	0.5
3.3.3	(i) (A)	:	Share market
	(ii) (C)	:	Both
	(iii) (D)	:	3 to 15
	(iv) (C)	:	1992
	(v) (B)	:	M. Narasimham
	(vi) (D)	:	0.5
3.4.1	(i) (C)	:	Tax reforms
	(ii) (C)	:	Tax reforms
	(iii) (D)	:	1994
	(iv) (A)	:	April 1, 2005
	(v) (B)	:	2003
	(vi) (D)	:	All above
3.5.1	(i) (D)	:	The basket of selected countries
	(ii) (C)	:	WTO
	(iii) (C)	:	Current and capital account
	(iv) (B)	:	1994-95
	(v) (C)	:	Tarapore committee
	(vi) (C)	:	1999

3.7 Exercise:

(A) Long-type questions :

1. Discuss the issues involved in new economic reforms.

2. Bring out the various economic reforms why were these reforms necessary?

3. Explain nature of economic reforms in India.
4. Discuss major financial sector reforms.
5. Discuss major external sector reforms.
6. Discuss major fiscal sector reforms.

(B) Short notes :

1. Globalisation
2. Banking sector reforms
3. Tax reforms
4. External sector reforms
5. Financial sector reforms

Challenges before Indian Economy

4.0 Introduction:

India is developing country and the economy is beset with various problems,but there are major problems such as unemployment, poverty, social and economic inequality, and regional imbalance. These problems are barriers in balanced development of India. Indian government has been consequently trying to find solution for these problems but it has not succeeded in a full screen.

4.1 Presentation of Subject-matter:

In this chapter we are feel free to study the problems of unemployment, causes and measures, problems of poverty ,problems of rising economic and social inequalityand problems of regional imbalance in India.

4.1.1 Problem of unemployment :

I) Introduction:-

India is developing country with many problems among them one problem is that of unemployment. There are many under-employed. In India we find various forms of unemployment such as, disguised, open, seasonal and educational unemployment.

Basically India's unemployment is structural in nature. It is associated with the inadequacy of productive capacity to create enough jobs for all those able and willing towork

II) Meaning of unemployment :

1) "Many people remain without work that's called unemployment".

2) "Quite a number, though educated, find no or little work to use their talent orskill its called unemployment".

3 "a large number of worker are forced to remain jobless both in rural and urbanareas is the unemployment".

III) Extent of Unemployment in India :

According the committee of experts of unemployment under the chairmanship ofBhagwati (1973) the likely numbers of unemployment in1971, may be reasonably takenat 18.7 million.

According to N.S.S data (19 th round), the committee on unemployment estimated that 8.5 million persons in rural areas and 1.3 million persons in urban areas were working less than 14 hours per week.

IV) Types of unemployment :

Following are the types of unemployment that exists in India

1. Structural unemployment :

It is associated with the inadequacy of productive capacity to create enough jobsfor all those able and willing to work.

2. Disguised unemployment :

Disguised unemployment is invisible in Indian villages, where most of the unemployment exists in the form and urban unemployment among the educated classes. In exact way disguised unemployment means people work below their capacityor they possess zero marginal physical productivity.

3. Cyclical unemployment :

It is associated with the inflation and depression phase of business cycle.

4. Frictional unemployment :

The products, the resources and the technologies undergo changes, making thestructure of an economy a picture of permanent change. Frictional unemployment exits when the process of rationalization started in India since 1950 also caused displacementof labour.

5. Seasonal unemployment :

It occurs at certain seasons of the year. Associated mainly with agriculture it is awidespread phenomenon in Indian village.

V) Causes of unemployment in India :

1. Rising in population :

In India productive capacity is below the needed quantity as against this additionsto labour force are being made at a fast rate on account of the rapidly growing population. Thus, while new productive jobs are on the increase the rate of increase being low, theabsolute number of unemployed persons is rising from year to year.

2. Slow growth of agriculture :

The volume of economic activities of present is being determined largely by agriculture the rate of rise in such activities is small.

3. Slow growth of industry :

The modern industrial sector which was to provide increasing avenues of employment is growing at a very slow place.

4. Destroyed industries :

During the British period, the flourishing indigenous small-scale and cottage industries instead of expanding and transforming themselves in to modern industrieswere destroyed.

5. Slow capital formation :

The slow capital formation also inhabited the growth –potential of activities both in the agricultural sectors and the industrial sector. The inadequacy of irrigation facilities the shortage of fertilized and power unsatisfactory transport facilities etc all caused largely by slow growth of the capital goods sectors have adversely affected the expansionrate of work opportunism in India.

6. Retrenchment of labour :

In India 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 armyordnance factories etc these workers were to be absorbed in peace time industries.

7. Rationalization :

The process of rationalization which is started in India since 1950 also caused of displacement of labour.

8. Shortage of capital equipment :

In India, it is not the result of deficiency in effective demand in the Keynesian sense but a consequence of shortage of capital equipment or other complementary resources.

9. Inadequate employment planning :

Planning in India is operating since 1951 has not contributed adequately to the solution of this problem this is largely because of the lower priority to the employment objectives and the under-rationing of human-resources.

10. Labour –surpluses :

In India government has no consideration in appropriate real wage rate policy asinstruments of labour intensive techniques in a big way where without prejudice to output further little has been done to utilize the Nurks variety of labor surpluses in village.

11. Weak man-power planning :

In some sectors of the Indian economy there is more than we need, while othersthere is less than we required, so is the case in many regions and skills. These imbalances have caused by increasing unemployment.

VI) Measures to remove unemployment :

1. Rural work programs :

The emphasis under the programs was on the construction of civil works of a permanent nature as would contribute to the mitigation if not the total eradication of thescarcity condition in the areas concerned.

2. Area developed scheme :

This scheme is relate to the development of adequate infrastructure facilities like roads, market complexes etc. in areas command by ten major irrigation projects.

3. Expanding volume of work :

One and the foremost solution to the problem of unemployment lie in enlarging opportunities for work. This is needed to be done rapidity and at an increased scale soas to clear the backlog of unemployment which is substantial.

4. Rising capital formation :

It is also necessary that the accumulation of capital is stepped up it helps increasing employment.

5. Appropriate mix of production techniques :

It is also necessary to choose such a combination of capital –intensive and labor– intensive technologies of production as it generate maximum employment.

6. Special employments program :

The remedies suggest that employment generation through a faster growth of theeconomy as well as an expansion of capital intensive based activities people for whom special employment programs are needed for landless agricultural labors, marginal farmers, village's artisans, and tribal people living in remote areas of the country as also people in the hilly areas.

7. Manpower planning :

For achieving employment for all it is necessary also to manage human resources in a scientific manner.

8. Special employment program :

A number of special employment program for self and wage employment have been in operation in rural and urban areas. In the rural areas, self-employed scheme such as Swarn Jaynti Gram Swarozgar Yojna (1999) ,Jawahar Gram Samuridhi Yojna, Jawahar Rozgar Yojna , Integrated Rural Development Programme, Training For RuralYouth For Self-Employment etc.

In urban areas, Prime Minister Rozgar Yojna (1995), Swarna Jaynti Shahari RozgarYojna, and Urban Poverty Alleviation Programs were launched.

9. Agro- service centers :

The schemes provided assistances for self-employment to the unemployment people availed through Agro service centres.

10. Marginal farmers and agricultural labours :

Under this scheme families were to be assisted with subsides, credit supports foragricultural and subsidized occupations like dairy poultry, fishery, etc.

11. Small farmer's development scheme :

The object of the schemes was to make credit available to small farmers to enable them to make use of the latest technology and to practice intensive agricultural and diversify their activities.

It is necessary through the above schemes that government consequently try to remove unemployment.

B Check your progress:-

A) Fill in the blanks

1) India is ....country.

a) developing b) advanced c)forward d)new

2) Indian unemployment nature is ………..

a) developing b)structural c)forward d)new

3) The chairman of the Expert committee on unemployment was………….

a) Mehata b)Khusro c) B. Bhagwati d) Gorwala

4) Many people are without work with existing wage rate means ……………..

a) Employment b)Khusro c) B. Bhagwati d) unemployment

5) Credit cyclical unemployment is associated with…………

a) business cycle b)inflation c) deflation d) unemployment

B) write the statements whether true or false.

1) Structural unemployment is associated with inadequacy productive capacity

2) Seasonal unemployment is not related to the certain seasons of the year.

3) Seasonal unemployment is a widespread phenomenon in Indian village.

4) Weak manpower planning is cause of unemployment.

5) IRDP programme has not implied by the government.

4.1.2 Problems of poverty:

A) Introduction:-

Poverty is socio-economic phenomena in which a section is unable to fulfill even its basic necessities of life. The poverty in India is a problem with some grave dimension; it is on the one hand, quantitatively a very big problem as the number of the poor. Indeeda massive aspect is that it is a problem of very low productivity of the poor, these peoples resources are poor in terms of assets, skills, credit, availability, etc. this makestheir earning to be dismally small.

B) Meaning of poverty :

1. “All all those who cannot undertake consumption-expenditure required for theminimum calorie-intake fall poor”.
2. “Any person who is not able to get minimum level of living that is poor”.

Thus, poverty expressed in terms of minimum requirements of vegetables, cereals,pulse, milk, butter, clothing, or calorie intake is conditioned by the relative levels of living prevalent in the country.

C) Poverty in India :

V.M. Dandekar estimated that in 1983-84 at total of 286 million (44.4) persons were living below the poverty line.

Planning commission Expert Group (1993) estimated that rural poverty ratio has declined from 56.4% in1973 to 39.1% in 1987-88 as against it there is a relatively smallerdecline in urban poverty ratio which has come down from 42.9% in1973-74 to 40.1% in1987-88.

The overall poverty ratio has, therefore declined from 54.9% in 1973-74 to 39.3%in 1987-88. Recently, scholars have not agreed on the new parameters of poverty.

D) Causes of poverty :

1. Paradox of poverty with growth :

The Indian economy is beset with a paradox or contradiction because on one hand increase in growth of economy, on the other hand these growth benefits did notreach to large masses of the people.

2. Rapid growth of population :

The incidence of poverty is to an extent also caused by the population growth which is large among the poor at all-India rate.

3. Destroyed industries :

During the British period flourishing indigenous small-scale and cottage industriesinstead of expanding and transforming themselves in to modern industries were destroyed.

4. Unemployment :

In India considerable degree of unemployment and under-employment is found among rural labours. It has been established that incidence of unemployment and under-unemployment is the highest among casual labours.

5. Weak bargaining power :

Even during periods of unemployment, due to their week bargaining power, low wages being paid to them so that their extent of poverty has increased.

6. Low assets :

In India assets distribution in rural and urban area is unequal according to RBI data 27% of rural households owing assets worth less than Rs.20, 000 accounted for only 2.4% of total assets.

7) Low education :

The low education attainments of the poor and educational differentials are the main factors for relatively lower levels of income among the poor. Poor parents are not able to help their children to access higher educational level.

8) Inadequacy of anti-poverty programs :

Another supplement to the transfer could be the various special programmes to ameliorate the conditions of the poor. These however, have not as yet made substantialimpact on the poverty.

9) Strategy of development :

The emphasis all along since the second plan till recently has been on the building of the capacity for capital goods. This meant to things investment in capital -intensiveprojects or less employment.

E) Measures of removal to poverty :

1. Rising income and consumption :

To remove poverty it will require such an ordering of priorities in respect of product-mix and technology mix that goods of mass consumption /wages goods and the labour- intensive technologies get the highest ranking growth of consumption goods and large employment opportunities for the poor, where by their income and consumption mayrise.

2. Rising social consumption :

The solution of the poor which includes rising the provision of social consumption for the poor .an example of the same is the minimum needs programs. This is such items as elementary education, health, housing, water supply etc.

3. General growth :

The growth strategy in a manner that helped to some extent in improving the condition of the poor, this involved such a re-structuring of the production and of product- mix that provided more work income and mass goods to the poor.

4. Improving social status :

Improving the social status of the poor which also upgrade their productive capabilities, effort at rising literacy ,widening the access to education and health facilities for the weaker section belonging to the scheduled caste and backward classes, enhancethe status, the skill and health of the poor.

5. Special programme :

There are certain special programmes for the development of women and children were launched, which empower them in various ways, including in respect of their legal rights like social welfare schemes.

6. Self-employment :

7. Special programmes involving the use of local resources and manpower can be devised to provide employment on wages and self-employed basis. Increasing education :

To remove poverty it is necessity to provide better education which is pro- occupational and increases labour skill and wages.

8. Training programme :

The training programme which helps the poor in earning by providing them assets, inputs, credit marketing facilities for skill formation etc.

9. Government programme :

The government has been implemented various programmes for the eradicationof poverty such as IRDP, NREP, RLGEP, dry land developing programme ,public distribution system etc.

The measures which have listed above together mark a well-conceived strategy for eradicating poverty. But, the important thing is that it should have been implementedeffectively.

B Check your progress:

A) Fill in the blanks

1) Poverty is ————————————phenomenon.

a) socio-economic b)political c) psychological d) ecological

2) Any person who is not able to get a.................... is poor.

a) minimum level of living b)income

c) social status d) political base

3) During the British period......................industries were destroyed.

a) big industries b) special c) small-scale and cottage d) poultry

4) Poor persons bargaining power is …………..

a) big b) special c) small d) weak

5) Swarn Jayanti Gram Swarozgar Yojna has been implemented in .... area.

a) big b) special areas c) urban d) rural

B) Write the ‘True’ or False.

1) Poor people is not a resource poor.

2) In terms of poverty included cereals, pales, milk and vegetables.

3) Poverty measures is the related to intake of calorie.

4) V.M. danekar’s study related to the unemployment.

5) Government has been implies anti-poverty programme.

4.1.3 Problems of rising social and economic inequality in India :

A) Introduction :

The problem of rising social and economic inequality in India can be studied in this in unit separately i.e. firstly, social inequality and secondly economic inequality. Social equalities in a country are necessary to draw the available human and material resources throughout the country in to the development process and to enable people in all regions to share the benefits of development for the harmonious development of India.

Generally, social inequalities are linked to racial inequality, gender inequality andreligious and caste inequality. The way people behave socially, through racist or sexist practices and other forms of discrimination is called as social inequalities.

B) Meaning of social inequality :

1 "social inequality is relation processes in society that have the effect of limitingor harming a group's social status, social class, social circle".

Thus, social inequality is found in voting rights, freedom of speech, and assembly,the extent of property and access to education, health care, housing, travelling, transportation and other social goods and services.

C) Forms or types of social inequality :

Following are the major types of social inequalities.

1) Gender inequality :

One of the major forms of social inequality comes in the form of gender. Genderidentity refers to person's internal "acceptance of sex, gender or sexual categorization as descriptive of themselves, among other ways, transgender and gender-variant persons can express their gender through their appearance the statement they makeor official documents they present.

The emphasis on gender inequalities is born out of the deepening division in the roles assigned to men and women, particularly in the economic, political and educational spheres. Women are under re-presented in political activities and decision making processes in most of the states.

2) Racial inequality :

Racial inequality is the result of hierarchical social distinction between ethnic groupswithin a society and often established based on characteristics such as skin, color and physical characteristics or an individual's place of origin or cultural. Unequal treatmentand opportunities between racial groups is usually the result of some ethnic groups being considered superior to others.

3) Caste inequality :

The caste system is a type of social inequality that exists primarily in India. Caste may be dependent on one's occupation or based on origin or by birth. There are often a number of restrictions assigned to people of lower caste, such as restrictions on sharing food and drink with members of other castes, restriction on going to certain places such as Temple, the enforcement endogamy and the use of caste –based dressand food habit. These restrictions have been enforced through physical violence or exploitation. Lower castes are more likely to live in slums and have low status jobs andincome.

4) Age inequality :

Age discrimination is defined as the unfair treatment of people with regard to promotions, recruitment, and resources privilege because of their age. It is a set of beliefs, attitudes, norms and values used to justify age based prejudice, discriminationand subordination.

5) Class inequality :

This class inequality was used by Karl marks, the two major social classes such as working class and capitalists' class with significant inequalities.

C) Measures to remove social inequality :

1) Rising wealth and income :

If more purchasing power is placed in the hands of the people at the lower rung ofthe income there will be a massive increase in the demand for necessities wages goods.

2) Increase in literacy :

To remove social inequality it is necessary that the literacy rate of society shouldbe raised.

3) reduce caste inequality :

To remove social inequality it is necessary to reduce the caste inequality in the society.

4) Special program :

A special program such as Swarn Jayanti Gram Swarozgar Yojna was launchedto minimize all kinds of social inequalities.

5) Women and child development program :

Government has been implementing various program for the development of women and child such as National Women Fund, National Women Committee, Jannei Surksha Yojna, Kasturba Gandhi Shiksha Yojna.

6) Education :

Under the National Education Policy 1986, different measures were implemented for the backward classes such as free education, concession in exam fee and couchingclasses etc.

7) Economic programme :

For the backward classes government has established various institutions such as National Backward Classes and Development Programme. B Check your progress :

A) Fill in the blanks.

1) Social inequality does exist between …………..

a) ethnic & religious group b) good & bad c)

2) Class inequality was introduced by……………

a) Keynes b) Karl marks c) Lenin d) Stalin

3) Gender inequality refers to ……………..

a) discrimination on ethnic & religious group

b) discrimination on the basis of sex

c) discrimination on the basis of caste

d) discrimination on the basis of income

4) is largely visible in India.

a) Caste in equality b) badness c) nice things d) less population

B) Write the true or false

1) Social inequality is relation process in society.

2) Caste inequality is not part of social inequality.

3) Racial inequality is based on the physical characteristic.

4) Caste inequality is depends on occupation or Birth.

5) Increase in literacy of society is not necessary for remove social inequality.

II) Problems of rising economic inequality in India:

A) Introduction :

India is developing country and there are many problems, among all the basic problem is the economic inequality. Economic inequality is also known as the gap between rich and poor. Income inequality is nothing but wealth disparity or wealth and income difference. The term typically referred to an inequality among individuals and group within a society but can also referred to an inequality among the countries. Indian economy is beset with gross economic inequalities, there are inequalities in income with a very few concerning a very large chunk of total income and a very largenumbers getting a very small proportion.

B) Meaning of economic inequality :

1 "Economic inequality is nothing but the unequal distribution of economic assets, income between individuals".

2 "Economic inequality is the gap between rich and poor".

Thus, economic inequality varies between societies, historical periods, economicstructures and system between individual's abilities to create wealth.

B Economic inequality in India:

In India at present (1997) 20% of individuals at the lowest bottom rung of the income ladder receive only 8.1% of the national income. At the other hand 20% individuals atthe highest rung of the income-ladder receives 46.1% of national income.

The disparity between the various states during the reform period indicate Punjab, Haryana, and Maharashtra at the top and Bihar and Orissa at the bottom.

During the reform period, urban inequality is higher than rural inequality in India and a gradual rise in urban inequality in 1993-94. The rural inequality was 28.50% andurban inequality was 34.50% in 1993-94 whereas in the 1999-2000 rural inequality was 26.33% and urban inequality was 34.25%.

It is clear that during reform period economic inequality has increased; especially gradual rise in urban inequality.

B) Causes of economic inequality :

There are many reasons for economic inequality in India they are as follows:-

1) Wealth distribution :

In India a few own a large chunk of income earning assets some others who do not own or own a part of the assets they operate, organize, finances, through banks,co-operatives etc; these inequality enable the few to gets incomes in the form of rent,interest and profit. As these assets accumulate and pass on from generation to generation, the earning capacity of these continuously increases.

2) Income distribution :

Income distribution is not just in India. As far as the rural area is concerned the ownership pattern of the land is highly unequal. The marginal households which accounts for as many as 72% of the rural households own very little about 17% of the land. On the other hand large holding who are about 1% of the rural households butthey have their ownership as much as 14% of the area. The position of urban areas isnot much different.

3) Inadequate employment generation :

In India, for long the increase in employment opportunities remained less than the rise in the labour force. The situation at present days is very bad. Since large, many remain unemployed or under-employed, their earnings continue to be little or nil for most of their live. The result is that these people remain at the lowest rung of the income scale. And the number of such people increases with the rapid growth in population. Thus, workless peoples are income less. All this explains the fact of largeinequalities of income in India.

4) Differential regional growth :

Of the large many at the bottom rung of incomes a very great proportion lives in poor regions and most of the few at the top live in the high income state/ regions, this is the geographically fact of income inequalities for the country as a whole.

5) Growth factor :

As development proceeds the earning of different groups rise differently. The incomes of the upper income and middle income groups rise more rapidly than those of the poor. Thus, growth itself is one reason of economic inequality.

6) Rising rural population :

One such factor is the rapidly rising rural population, which keeps the earning depressed in the village. As against this, those who enter the modern sector get larger share of the rising income. Further, those with skills get still larger incomes as the demand for the skilled labour rises much faster than that of the unskilled labour.

7) Capital-formation :

The capital-intensive type of growth leads to concentration of income in few hands who supply capital.

8) Urbanization :

Modern industries are generally located in urban areas; they give rise to the demands of urban population for things such as transport, housing, drainage water supply, electricity, health care etc. This is also accentuates income inequalities in India. Urbanites are well placed as compared to the rural people in taking advantages of these income earning opportunities. The poor do not get much in fact they may even beworse off.

9) Wages and salaries :

Highly skilled workers earn more than unskilled. This fact causes for increased economic inequality.

10) Taxation :

Regressive tax system increased the leavl of economic inequality because this system is burden on the poor.

D) Measures to remove economic inequality :

1) Income transfer :

A policy to reduce inequalities through income transfer from the rich to the poor will result in an increase in the social welfare. This is because the welfare-loss of therich will be far less than the welfare-gain of the poor. This will thus be a net gain for thesociety.

2) Growth with social justice :

Government has undertaken various measures to curb the evil of inequalities. These measures have encompassed personal distributions like urban-rural inequalitiesand state-regional disparities.

3) Structure of taxation :

The structure of taxation which has some progressive features, consist in higher tax rates at higher incomes and large taxes on luxury items etc.

4) Concentration of wealth :

There are measures that aim at the concentration of wealth in a few hands. In therural areas it has taken the form of ceiling on land which an individual can hold.

5) Existence of public sectors :

The public ownership of some industries and financial institutions with considerable investments has helped in restricting the field of ownership by few in these fields.

6) Transfer to resources :

There are various schemes pertaining to the transfer of resources/assets incomesto the poor were undertaken.

7) Special programs of employment :

There are special programmes of employment designed for specific and week groups, the examples are Swarna Jaynti Gram Swarozgar Yojna, special programmesfor tribal people, hilly people, and providing employment to poor workers, artisans etc.and raised their income.

8) Extending public utility services :

There is the general policy of extending public utility services, with an emphasis on meeting the needs of low income groups, e.g health, education, drinking water etc.

9) Control of population :

The policy of reducing the fast growing population among the poor is also helpfulin as far as it raises the income status of the poor and thereby improves the income distribution.

10) Appropriate income policy :

The government needs to follow an appropriate income policy which keeps the ratio between the highest income and the lowest income at a socially acceptable figure.

Above the measures are helpful to remove of economic inequality. It is necessitythat these measures implemented strongly and we should aim at achieving social- economic equality.

B Check your progress

A) Fill in the blanks

1) Economic inequality is gap between the ……………

a) rich and poor b) good and bad c) white and black d) young and old

2) Economic inequality is related to .... inequality.

a) income b) bad c) white d) old

3) In India lowest 20% individual’s income asset receive............ %.

a) 9.3 b) 8.1 c) 6.23 d) 3.9

4) In the year 1999-2000 rural inequality was.......... %.

a) 28.23 b) 24.33 c) 26.33 d) 26.94

5) During the reform period urban inequality is higher than .... inequality.

a) rural b) urban c) backward d) advanced

B) Write the true or false

1) Post reform economic inequality is decrease.

2) In India income distribution is just.

3) Economic inequality is involves equity, equity of out-come.

4) Regressive tax system is increased the economic inequality.

5) Control of population is one measure to remove the income inequality.

4.2.4) Regional imbalance in India:

A) Introduction :

Balanced regional growth is necessary for the harmonious development of Indianeconomy. But regional imbalance is major problem in India. In India at present pictureof extreme regional variation in terms of economic growth, per capita income, the proportion population of living below the poverty line, working in manufacturing industriesetc. have been studied.

B) Meaning of regional imbalance:-

1) "The co-existence of relatively developed and economically depressed states and even regions within each state is known as regional imbalance".

2) "Even within each state, some regions are more developed while others are almost primitive, it is called regional imbalance".

Regional imbalance may be natural due to unequal natural endowments or manmade in the sense of neglect of some regions and preferences of others for investments and development effort.

Regional imbalance may be inter-state or intra state. Economic backwardness of region is indicated by high pressure of a population on land, excessive dependence on agricultural or low productivity in agricultural and cottage industries etc.

The Raghuram G Rajan Committee has also come up with a Multi-Dimensional Index of Backwardness based on per capita consumption as measured by the NSSO,the poverty ratio, and a number of other measures which correspond to the multi-dimensional approach to define poverty outlined in the Twelfth Plan. The Committeehas recommended that states that score 0.6 and above on the Index may be classifiedas “Least Developed”; states that score below 0.6 and above 0.4 may be classified as “Less Developed”; and states that score below 0.4 may be classified as “Relatively Developed”.

As per the report, Odisha, Bihar, MP, Chhattisgarh, Jharkhand, Arunachal Pradesh, Assam, Meghalaya, Uttar Pradesh and Rajasthan come under the least developed category. Under the less developed category comes Manipur, West Bengal, Nagaland,and Andhra Pradesh, Jammu and Kashmir. Mizoram, Gujarat, Tripura, Karnataka, Sikkim and Himachal Pradesh. In the list of relatively developed states come Haryana, Uttarakhand, Maharashtra, Punjab, Tamil Nadu, Kerala and Goa.

C) Dimensions of Regional imbalance in India :

1) Poverty line :

Regional imbalance do exists in various states of India. There are some states forward and some states are backward. For example Orissa,(47.15%) Bihar, (42.60%) Madhya Pradesh, (37.43%) states are at bottom of poor list in India and based on the proportion of poverty, Jammu Kashmir, Goa, Punjab, states are economically forward.

2) Industry :

Regional disparities is also exists in industry of India. Maharashtra, west Bengal, Tamil Nadu, Gujarat, Uttar Pradesh, Uttaranchal, Bihar, Madhya Pradesh states are industrial developed states which have contributed provided 83.5% industrial production out of total production, while others states are contributed 16.5% industrial productionin India.

3) Proportion of literacy :

Regional disparities is visible in literacy, Kerala and Tamil Nadu have achieved higher levels of literacy, and in Kerala proportion of literacy is 90.9% which is level attop. Among the backwards states, Uttar Pradesh, [56], Bihar (47.0%) Rajasthan, Madhya Pradesh (64%) Delhi (82%) Maharashtra (77%) Tamil Nadu (74%) have very poor records in terms of literacy.

4) Density of population :

In India average density of population is 325 persons per sq km among the differentstates of India , Delhi (9340) Chandigarh(7900), Kerala, West Bengal, Bihar, Tamil Nadu, And Uttar Pradesh are highly densely populated states but Madhya Pradesh, Rajasthan, Himachal Pradesh, Nagaland are low densely populated states.

5) Population of urbanization :

Nearly 27.8% population is living in urban areas of India. But unequal proportionfound in various states. Among the various state Maharashtra (42.4%), TamilNadu (44%), Gujarat (37.4%), West Bengal (28%), Andhra Pradesh (27.3%), Himachal Pradesh (9.8%), Bihar (10./5%) living the population in urban areas. Thus, regional disparitiesare also exists in urbanization in India.

6) Net State Domestic Product :

7) On the basis of NSDP in forward state (Punjab, Maharashtra, Haryana, Gujarat, west Bengal, etc) indicated an annual average growth rate of 6.3% during 1990-91 to 1997-98. As against them, the backward states indicated a growth rate of 4.9% duringthe pre-reform and post reform period. It is notable that during the pre-reform period consequently increased the regional disparities. Consumption of power :

Regional disparities are visible in consumption of power such as Andhra Pradesh, Kerala, and West Bengal, and all the other forward states are the national average of338 kWh in 1996-97. As against them the backward state especially Uttar Pradesh and Bihar is way behind at 145 kWh and 194 kWh. Respectively. It is imperative that unlessthe industrialization process picks up in these state, the disparities would continue.

8) Transport facilities :

In case of transport facility Kerala, Tamil Nadu, Punjab, West Bengal, Gujarat states are developed. There are adequate railways facilities: but in Assam, Orissa; Madhya Pradesh states are not having adequate railway facility. So regional disparities in Indiawere michend.

9) Social infrastructure and human development :

Wide disparities are visible among different states like Kerala and Tamil Nadu have achieved higher levels of human development and health infrastructure. Among the backward states like Uttar Pradesh, Bihar, Rajasthan have very poor record in term of literacy and human development.

10) Irrigation :

While considering irrigation infrastructure, Punjab have 95% of irrigated area. But other states are backward in irrigation facility.

11) Infrastructure disparities :

While considering infrastructure, Punjab, Tamil Nadu, Haryana, West Bengal, haveachieved higher levels of infrastructure. While other states poorer in infrastructure

D) Causes of regional disparities :

There are many facts which have caused regional disparities in India.

1) Historically :

The existence of backward regions started from British rule in India. The British helped the development of those regions which possessed facilities for prosperous manufacturing and training activities. Maharashtra and West Bengal were the states preferred by the British industrialists. And the rest of the country was neglected andremain backward

2) Trends of new investment :

The private sector has a tendency to concentrate it in an already well developedarea. Thus, they were reaping the benefits of external economies. Thus, the trends ofnew in investment was greater in such area.

3) Preferred regions :

Some regions are preferred because of certain location advantage. The iron and steel factories or oil refiners will have to be only in those technically defined areas, which are optimal from all the standpoints considered together.

4) Geography climate :

Geography climate is very important factor in economic development. In India Himalayan state, such as northern Kashmir, Himachal Pradesh, the hill district of U.P; and Bihar has remained backward because of inaccessibility.

5) Land system :

In India land distribution is not equal in rural area. And the absence of effective landreforms allowed the structure in most rural India to remain inimical to economic growth.

E) Policy measures to remove regional disparities :

1) Central governments incentives :

The government of India has been providing important and required incentives to promote private investment in backward areas.

2) Income tax concession :

New industrial units located in backwards areas set up after January 1971 are allowed a deduction of 20% profits for computations of assessable income. This concession is available for a period of 10 years where by disparity came to be minimized.

3) Central investments subsidy scheme :

The scheme of central investments subsidy as originally announced in 1970 provided for an outright subsidy at the rate of 10% subject to a maximum of RS 5 lakh on fixed capital (land building plant and machinery) the rate of subsidy was raised to 15% andstill later 20%.

4) Transport subsidy scheme :

This scheme introduced in July 1971. Industrial units set up in hilly remote and inaccessible areas were entitled to 50%. Transport subsidy on the expenditure incurred for movement of raw material and finished goods to and for certain selected rails headsto the location of the industrial units.

5) Other measures :

1) As from August 1972, the central government has been giving priority to backwards areas in the matter of issuing industrial licenses.
2) The government has also granted liberal concession to MRTP, FERA companies for setting up certain types of industrial units at location in centrally declared backward areas.

c) State government incentives :

State governments have also offered incentives to attract private investment in backward regions such as provision of development plots with power and water, no profit no loss basis exemption from payments of water charge, interest free loans, exemption from sales tax duties, subsidy on industrial housing scheme etc.

D) Concessional finance by major financial institutions :

The three major public sector financial institutions viz IDBI, IFCI, ICICI provides concessional finance for industrial projects located in backward areas. These concessional benefits relate to a lower rate of interest, long period of repayment, participation in the risk capital or debenture risk etc.

E) National equal development plan :

National equal development plan was introduced in Tenth plan, to support the developments initiatives in backward areas. The strategy of RSVY is to assist the development of backward regions through additional grants only if the concerned state governments undertake an agreed set of reforms.

F) Resource transfer :

The resources transfer relates to central assistance for state plans, transfer effected under the recommendation of finance commission. Transfer from the centre to state, the distribution of assistance for centrally sponsored schemes the distribution of long- term and short-term credit from financial institution etc.

G) Special area developed programmes :

Specific plan schemes have been formulated to develop hilly areas, tribal areas and drought-prone area. Moreover, schemes of rural development directed towards the improvement of specific groups like small farmers and agricultural laborers who are located in backward areas for e.g. block level planning for integrated rural developmentand full employment.

Above measurers were used to reduce the regional disparities in India by the variouslevels of government policies.

4.2.4. Check your progress :

1) Regional imbalance may be known as……….

a) inter-state or intra-state b)poor c) forwar d) backwards

2) One region developed, while others state are backward that is called as ……….

a) backward b) regional imbalance c)poor d)unknown

3) Bihar is economically………..

a) advanced b)poor c) forwar d) backwards

4) In India density of population is .... persons per sq k.m.

a) 8930 b) 1230 c) 375 d) 490

5) NSDP means…………..

a) net state domestic product b)nonspecific developed program

c) National social democratic power d) non subsidized development program

B) Write the true or false

1) Kerala state has achieved higher levels of literacy.
2) Punjab has backward state.
3) In India regional imbalance is started from British rule .
4) Geography climate is not effective in regional imbalance.
5) RSVY is introduced in tenth plan.

4.2 Summary:

In this chapter we have studied the problems of unemployment and the causes and measures of it, problems of poverty and its various dimensions, problems of rising economic and social inequality and problems of regional imbalance. Unemployment ismajor problem in India. Poverty is social phenomenon, which is affected social and economically field of our country. Post reform economic inequalities have increased and it is more in the urban areas than rural areas. During the British period small-scale industries are destroyed.

Social inequality included racial, gender and caste inequalities.

Regional imbalance is depending on geographical, climate, economic fact and social and political power.

4.3 Terms to remember:

B Unemployment = without work.

B Poverty = unable to get minimum levels of living.

B Social inequality= social disparity phenomenon.

B Economic inequality =unequal income distribution.

B Disguised unemployment = Marginal Physical Productivity of labour is Zero

B Regional imbalance = difference of development in various state.

B Harmonious development- balanced development.

4.4 Answer to check your progress:

4.2.1. Answer to check your progress :

1) =a) developing 2)=b) structural 3)=c) B. Bhagwti

4)=d) unemployment 5)=a) Business cycle

B) 1) true 3) true 2) False 4) true 5) False

4.2.2. Answer to check your progress

A) 1=a) socio-economic 2) = a) minimum level of living

3) =c) small-scale and cottage 4)=d) weak 5)=d) rural

B) 1) false 2) true 3) true 4) false 5) true

4.2.3. Answer to check your progress :

A) Answer of objective question:-

A) 1) =a) ethnic or religious group 2)=b) Karl marks

3)=b) discrimination on the basis of sex 4)=a)caste inequality.

B) 1) true 2) false 3) true 4) true 5) false

B) Answer of objective question:-

A) 1) =a) rich and poor 2) =a) income 3)=b) 8.1 4) =c)26.33 5)=a) rural

B) 1) false 2) false 3) true 4) true 5) true.

4.2.4. Answer to check your progress

A) 1) =a) inter-state or intra-state 2) =b) regional imbalance

3) =d) backwards 4) =c) 325 5) =a) net state domestic product.

B) 1) True 2) false 3) true 4) false 5) true.

4.5 Exercise:

a) Broad answer type question

1) Distinguish between social inequality and economic inequality.

2) Explain the unemployment and their types.

3) Explain the regional imbalance and their causes. Explain the economic inequality and these remove to the measures.

4) Explain the social inequality

5) Explain the causes of poverty.

b) Write short notes on :

1) Regional imbalance in India 2) unemployment

3) Measures of poverty 4) types of social inequality

5) Economic inequality 6) causes of economic inequality

Indian Agricultural

1.0 Introduction

India's agricultural economy is undergoing structural changes. During 1951 to 2013, the GDP share of agriculture has fallen from 55.1 to 14 percent. This is not because ofreduced importance of agriculture, or a consequence of agricultural policy. This is largely because of the rapid economic-growth in services, industrial output, and non-agricultural sectors in India during 2000 to 2010. Agriculture in India is a major economic sector as well as it creates plenty of employment opportunities.

1.1 Presentation of subject matter

In this unit, we will study the changing role of agriculture in Indian Economy such as agricultural production, causes of low agricultural productivity, status of green revolution and need for second green revolution. Besides this, we will study the nature and causes of agriculture distress. India is the most potential developing economy in the world. With growth rate in the range of 6% to 7% consistently. India was even considered as one of the most fortunate which bore the burns of global recession the least. The supporting factor for this is fiscal policies of Indian Government. And the backbone of this strong potential and the most competent economy is the agriculture.

1.2.1 Changing Role of Agriculture in Indian Economy

India is the largest producer in the world of milk, cashew nuts, coconuts, tea, ginger, turmeric and black pepper. It also has the world's largest cattle population (281million). It is the second largest producer of wheat, rice, sugar, groundnut and inland fish. It is the third largest producer of tobacco. India accounts for 10% of the world fruit production with first rank in the production of banana and sapota.

1. Share in National Income

2. Agriculture is basic business of our, but the share of agriculture in the total national income has been gradually decreasing on account of development of the secondary and tertiary sectors. It's contribution continues to be significant. The contribution to GDP from agriculture has been

continuously falling from 55.1% in 1950-51 to 37.6% in 1981-82 & further to 14% in 2012-13. But, still it continues to be the main sector because it provides livelihood to a majority of the people. The more developed a country, lesser the contribution of agriculture. Source of Employment :

Today almost 60% population depends directly or indirectly on agriculture. The greater dependence of working population on agriculture indicates the underdevelopmentof non-agricultural activities in the country. Despite India's economic development, over 70% of the population still lives in rural areas. The decline of the labour force in agriculture has not kept pace with its decline in the economy. In 1951, 69.5% of the working population was engaged in agriculture. This percentage fell to 66.9% in 1991 & to 56.7%in 2001. However, with rapid increase in population the absolute number of people engaged in agriculture has become exceedingly large.

3. Importance in industrial development :

Agriculture provides raw materials for leading industries such as cotton textiles and sugar industries. Not only have this workers in industries depended on agriculture for their foods but also provides the market for a variety of goods.

4. Importance in International Trade :

A number of the agricultural commodities like tea, coffee, spices and tobacco constitute our main items of exports. This amount to 15% of our total exports. Hence,
.agriculture provides foreign exchange which helps us to buy machines from abroad. It also maintains a balance of payments and makes our country self-sufficient.

5. Exports of Floricultural Product :

According to the government's agri-trade promotion body, APEDA India's exports of agricultural and floricultural products, fruits and vegetables, animal products and processed food products was worth US$ 7.98 billion in 2008-09, an increase of 13.88 per cent from US$ 7.01 billion in 2007-08. India's agri-export turnover is expected to double in the next five years, according to APEDA. Agri-export turnover is set to rise to nearly US$ 18 billion by 2014. At present, around 70 per cent of the country's agricultural and processed food is being exported to developing countries like the Middle East, Asia, Africa and South America.

6. Development of Tertiary Sector :

Tertiary sector provides helpful services to the industries and agriculture like banking, warehousing etc. The internal trade is mostly found in agricultural produce. For example, various means of transport get bulk of their business by the movement of agriculturalgoods.

7. Revenue to the Government :

State governments get a major part of their revenue in terms of land revenue, irrigation charges, agricultural income tax etc. Central government also earns revenuefrom export duties on the agricultural production. Moreover our government can raisesubstantial revenue by imposing agricultural income tax, however this has not been possible due to some apathy of political party.

8. Supply of Diversified Food :

Indian agriculture policy shifted to “evolution of a production pattern in line with thedemand pattern” leading to a shift in emphasis to other agricultural commodities like oilseed, fruit and vegetables. Farmers began to adopting improved methods and technologies in dairying, fisheries and livestock, and meeting the diversified food needsof India’s growing population.

9. Import of Intermediate Products :

Indian agricultural imports are focused mainly on intermediate products. The biggest growth has been in” intermediate products which increased nearly fourfold over the period. This reflects the importance of vegetable oils in Indian imports. Palm oil is by far the biggest import at 29% of the total. Together with soybean oils, they represent over 40% of imports. Protein rich peas are also within the top 5. The increasein imports of these foodstuffs is driven by population growth, while cashew nuts and cotton are among the top exports, they also appear in the top 10 imports. Cashew nutsare imported for further processing, the silk and cotton, which are used in the Indian textile industry.

10. International Importance :

11. Our agriculture has brought fame to the country. India enjoys first position in theworld as far as the production of tea and groundnuts are concerned. Share of Forestry in GDP :

Agriculture in India is the means of livelihood of almost two thirds of the work forcein the country. Agriculture and allied sectors like forestry and logging accounted for 16.6% of the GDP in 2007, employed 52% of the total workforce a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India.

12. Increased Value Added Per Worker :

In India agricultural value added per worker has grown by only 15% in real termsfrom 1990 to 2004. By comparison, productivity in China rose by over 60% and more than doubled in Brazil.

13. State Economies :

Consistent with the trends of economic development at national level, role of agricultural sector in the state economies is also changing rapidly. The share of agriculture in GSDP has declined significantly during the last two decades. In some States, such as Bihar, Punjab, UP, Haryana, Rajasthan, and Orissa, the sector today contributes more than one-quarter of GSDP, while in some states, such as Gujarat, Kerala, Kamataka, TN and Maharashtra, the sector contributes less than 20 percent toGSDP.

B Check Your Progress

Choose the correct alternatives from the following.

1. Share of agriculture sector in Indian Economy has ……………….. .

1) Increase 2) Constant 3) Decreased 4) None of above

2. sector creates plenty of employment opportunities in Indian Economy.

1) Agriculture 2) Industry 3) Service 4) None of above

3. India ranks........................in the cattle population.

4. First.. 2) Second 3) Third 4) None of above Export of agriculture sector is almost...........to our total reports

1) 50% 2) 5% 3) 15% 4)25%

5. Agriculture sector contributes less than .... percent to GSDP of like states like Gujarat, Kerala, Karnataka, T.N. & Maharashtra. a) 20 2) 30 3) 40 4) 15

1.2.2 Agricultural production and causes of Low Agricultural Productivity :

I) Agricultural Production in India

Optimum food grain production is the most important need of the every nation. Asa result, government is providing various facilities to the food grain growers in India. Asfar as food grains output is concerned, the total production has increased from 50.8 million tonnes in 1950-51 to 259.32 million tonnes in the 2011-12 and further, Advance Estimates for the year 2012-13 released on April, 2013, the food grains production roseto the record production of 255.36 MT. Now, agriculture production in India can be expressed in the following way.

1. India is the Largest Producer of certain agro-products :

India has become the world's largest producer across a range of commodities due to its favorable agro-climatic conditions and rich natural resource base. India is thelargest producer of coconuts, mangoes, bananas, milk and dairy products, cashew nuts, pulses, ginger, turmeric and black pepper. It is also the second largest producer of rice, wheat, sugar, cotton, fruits and vegetables.

2. Increase in Total Food-grain Production :

Total food-grain production was 50.8 MT in 1951, it was increased by 176.41 MT in1990-91 and further it had been increased by 259.32 MT in 2011-12 and it is expectedincrease to 255.36 MT, during 2012-13 and food-grain production is expected to decreaseby 1.5 per cent as compare to last year because of drought in some states.

3. Wheat Production :

Wheat is one of the major crop produced in India. The Punjab and Haryana are thestates which are producing maximum wheat in India. Total wheat production was 75.81 MT in 2006-07 and it has increased of 4.88 MT in 2011-12 and it has projected to remain at the same level of 95 million tons for 2013. According to government data, area under wheat has gone up marginally to 27.75 million hectares by February 4, 2010, compared to 27.58 million in the last year.

4. Rice Production :

Rice is another important crop in India. Total rice production in khrif and rabi seasonwas 93.35 MT in 2006-07. Rice production was increased by 95.98 MT in 2010-11 to 105.31 MT in 2011-12 and it is expected to increase by 104.22 MT in 2012-13.

5. Cotton Production :

Cotton is cash crop for Indian farmers. India is the second-largest cotton producer country in the world. It was about 226.32 million bales (one bale is equal to 170 kg) inthe 2006-07 by 22.33 percent as compared to previous year. Cotton production was increased by 352 Million bales in 2011-12. And it is expected to 338 Million bales in 2012-13. It is because of high support price and more sowing of high- yielding BT seeds.

6. Coffee Production :

India's coffee output is pegged at 310,000 tons in 2009-2010, 4.4 per cent highercompared to 2008-09. According to the International Coffee Organization (ICO), Indiahas a bright chance of becoming the fifth largest coffee producer in the world, replacing Mexico. Currently, it is placed in the sixth position.

II) Causes of Low Agricultural Productivity in India :

Though agriculture is said to be the backbone for our country, we still are lagging behind many nations in terms of agricultural productivity. We can adopt and follow some methods to get rid of this problem. The causes for low productivity of Indian agriculture can be divided into three broad categories, namely,

(A) General Factors,

(B) Institutional Factors

A. Technological Factors. General Factors:

1. Overcrowding in Agriculture :

The increasing pressure of population on land is an important demographic factorresponsible for low yield in agriculture. In India, too many people depend on agriculture. Almost two third of our labor force depends on agriculture. Increasing pressure on landhas leads to the fragmentation of land holdings. The area of cultivated land per cultivatorhas declined from 0.43 hectare in 1901 to 0.23 hectare in 1981 despite an expansion ofarea under cultivation. Hence, agricultural sector has become overcrowded and this has adversely affected the agricultural productivity.

2. Discouraging Rural Atmosphere :

Indian farmers are generally illiterate, ignorant and conservative. They are boundto outdated and traditional customs such as caste system, joint family system etc. Their blind faith in social customs, traditions and fatalism keep them happy with the old methods of cultivation. They, instead of giving their money for the development of agriculture, unnecessarily waste it on the social customs. Besides, the presence of mutual bitterness and group conflicts among the groups lead to litigation. Under such a discouraging rural atmosphere, there is no possibility of agricultural development. In brief, the Indian farmers, living in rural areas are generally tradition-bound, illiterate, ignorant, superstitious and conservative. Their attitude of apathy and negligence keeps the system of cultivation primitive. The farmers are not prepared to accept anything new as *a* consequence of which modernization of agriculture becomes difficult.

3. Inadequate Non-firm Services :

Shortage of finance, marketing and storage facilities are also responsible for agricultural backwardness in India. The co-operatives and other institutional agencies have not been able to eliminate the village money lenders. Storage facilities for farmersare not still available to preserve their agricultural product to have a better price.

4. Lack of Professionalization :

An attitude of farmers towards agriculture in America, England, Russia and Japan is of professional. They are doing agriculture as a business and are trying to get more and more profits from agriculture. But, in India, farmers are doing the agricultureas livelihood. So due to the lack of professionalization, the productivity of agriculture is low.

5. Natural Calamities :

Indian agriculture gamble in the monsoon. If monsoon becomes favourable, we have a good crop; otherwise agriculture get affected by drought, flood and cyclone.

B. Institutional Factors:

1. Size of Holding :

The small size of holdings in India is an obstacle in the way of progressive agriculture. The average size of holdings in India is less than 2 hectares. In case of verysmall firms, it is difficult to introduce new technology. Further, due to fragmentation of land holdings a great deal of labour and energy is destroyed in cultivation. The average size of land of holding in India is very uneconomical. It is less than 2 hectares as against 122 hectares in America. Not only agricultural holdings are small but also fragmented. Small holdings of land lead to wastage of land, labor and capital. As a result of this small holdings, scientific cultivation is not possible.

2. Defective Land Tenure Structure :

The agrarian structure in India is not conducive for a progressive agriculture. The tendril relationships were such that the big landlords used to have a considerable influence on their respective areas. The actuarial cultivator had known incentive for improvement and more production. Though the zamindari system has been abolished, absentee landlordism still prevails; heavy rents are still extracted and there is no security of tenancy. Under these circumstances, it is unwise to expect any remarkable increasein agricultural productivity due to the apathetic attitude of the tillers of the land. Before independence, the agricultural productivity of our country was seriously affected by land tenure. Under this system, the tenants could be thrown out of their land any time.They were left at the mercy of their landlords. Under these condition, the cultivators didnot take much interest in any improvement on land to increase the productivity.

3. Lack of Organization :

In agriculture the farmers are not united and they do not have dynamic leaders. The philosophical outlook, inclement weather, vagaries of monsoon, fluctuating prices, harassment due to village factions and petty officials, etc. have discouraged the young generation to come forward with new ideas into the agricultural sector.

C. Technological Factors

1. Old Methods of Production :

The technique of production adopted by Indian farmers is old, out-dated and inefficient. The tradition-bound poor farmers have not yet been able to adopt the modernmethods to get the best yield from their land. The seeds they use are of poor quality and the age- old, traditional wooden plough still exists in Indian agriculture. The farmers do not enjoy the benefits of agricultural research and development programmes. Theyconsider agriculture as a way of life rather than a business proposition. Therefore, production remains at a low level. Indian farmers have been using old tools and implements such as the wooden plough, spade and hoe. Majority of the farmers havefailed to use the modern tools such as the tractors etc.

2. Inadequate Irrigational Facilities :

Indian agriculture highly depends on monsoon due to non- availability of irrigationfacilities. In spite of several measures, irrigation has not substantially increased in India.At present only 38% of the land is irrigated. The rest is left under the mercy of the monsoon which is highly irregular and uncertain. Thus, Indian agriculture is called as the “gamble of Monsoon”. Under such a situation, the fertilizers and the HYV seeds cannot be used effectively.

3. Lack of Crop Management :

4. The low quality of veriety of crops being grown in traditional agriculture, due to poor quality seeds available to the villagers. Lack of better field preparation and inadequate manuring, sowing operations, crop management and with unavailability of post-harvest storage facilities lead to poor quality of crops as well as yields. Agricultural Finance :

For their cash requirements, the farmers mainly have to depend on the village money lenders who exploit them by charging exorbitant rates of interest. Small farmers cannot get sufficient loan from the financial institutions.

5. Inadequate Research :

Benefits of the research and development have not been reached at the door ofthe farmers and they are not in an applicable form. Extension is confined to individualgood practioners and the modern farming methods have yet to take roots in the countryside.

III) Measures to Improve Agriculture Productivity :

The productivity of Indian agriculture is low than that of developed countries. Government of India has taken the various efforts and announced the different programmes to increase the agriculture productivity. Some of the remedies should be taken in order to increase the productivity of agriculture sector. The following are the important measures to increase the productivity of Indian agriculture:

1. Improvement in Technology :

Improved technology is the most important for the growth of agricultural output. Available evidence shows that there is a big change in the level of yield with improved farm practices followed by the farmers. Technological improvements in agriculture includes biological and mechanical innovations. Biological innovations include use of crops varieties. Mechanical innovations imply the use of modern machines. Therefore, there is a need to transfer improved technology to framers.

2. Development of Irrigation :

Efforts can be made by the government to improve and expand irrigation facilitiesso that the farmers are not left at the mercy of the Monsoon.

3. Land Reforms :

Though many land reforms measures have been introduced in India, but their performance remains far from satisfactory. Efforts should have been made to increase the size of the land holdings.

4. Use of Improved Fertilizers and Seeds :

Indian farmers should make use of HYV seeds, chemical fertilizers rather than the traditional seeds and manures. It has been estimated by agricultural scientists that Indian farmers use only one-tenth amount of manure that is necessary to maintain theproductivity of land.

5. Agricultural Research and Extension :

There should be provisions of education, research and extension of agro-economicservices to spread the knowledge of improved methods of farming. More efforts are requires in the research and the development in the field of agriculture. There should be an extension of land used and intensification and utilization of land already in usethrough improved and scientific implements.

6. Crop Rotation System :

Another important measure to increase the productivity of Indian agriculture is that of the scientific rotation system of crop cultivation. Frequently more than one crop at a time may be seen occupying on the same land but one is very apt to forget that this is really an instance of rotation being followed. Now- a -days mono crop culture has been introduced, it increases the productivity of land and earn market surplus.

7. Incentives to the Farmers :

Crop insurance schemes can be implemented. Farmers can be given the merit certificates or prizes. Remunerative prices of agricultural crops should be guaranteed by the government, where by productivity can be enhanced.

8. Use of Modern Inputs :

Improved technology is the most important fact for the growth of agriculture output. The modern inputs like fertilisers, Pesticides and improved seeds should be made available to the farmers at reasonable prices. For this purpose extension services needto strengthen in our country.

9. Marketing Facility :

There should be an expansion of adequate marketing facilities to sell the agricultural Product. The farmers should be maintained with a stable price for their agriculturalproducts at a remunerative level.

10. Cheap and Timely Finance :

There should be a provision of cheap credit on reasonable terms especially to small farmers for better techniques of production. For this purpose agricultural co- operative credit societies should be set up in rural areas to advance loans to the farmersat low rate of interest.

11. Resources Development :

The State should make provision for the development of resources which are notpossible in the part of individual farmers e.g. large scale irrigation, land reclamation or resettlement projects.

12. Co-operative Joint Farming :

Small uneconomic plot can be pooled together to make a fair-sized big farm to make farming an economic proposition. In recent years, the emphasis in co-operativejoint farming has practically van be pooled together to make a fair-sized big farm to make farming an economic proposition. In recent years, the emphasis in co-operativejoint farming has practically vanished altogether. Hence, the prospects have becomerather bleak in this respect.

13. Transport Facilities :

The provision of transport facilities in the rural areas will enable the farmers to take their produce to the markets, which will bring them better price and increase their aggregate incomes and investible surpluses.

14. Consumption of Power :

Consumption of electric power per hectare was just 9 kwh in Assam, 30 kwh in Orissa and only 34 kwh in Himachal Pradesh during the 2001 and 2003-04. Electric power used in agriculture varied between 80 kwh and 300 kwh in Kerala, Jammu and Kashmir, Bihar, MP, West Bengal, UP and Rajasthan, whereas it exceeded 1000 kwh in Andra Pradesh. These measures will definitely increase the agricultural productivity of our country and utilize the agricultural land efficiently.

B Check Your Progress

Choose the correct alternatives from the following.

1. Total food-grain production was 50.8 MT in ………………

1) 1947 2)1951 3)1960 4)1955

2. Lack of .... are the main causes of low agricultural productivity in India.

1) Storage facility 2) Technology 3) Marketing Facility4) All of above

3. India is the.........................largest producer of cotton in the world

1) First 2) Second 3) Third 4) None of above

4. At present only ....of the land has been irrigated in India.

1) 17% 2) 38% 3) 50% 4) 70%

5. An attitude of farmers towards agriculture in America is ………………..

1) Traditional 2) Professional 3) Both 4) None of above

1.2.3 Success and Failure of Green Revolution and Need for Second GreenRevolution:

A) Green Revolution in India :

The beginnings of the Green Revolution are often attributed to Norman Borlaug, an American scientist interested in agriculture. In the 1940s, he began conducting research in Mexico and developed new disease resistance high-yield varieties of wheat. By combining Borlaug's wheat varieties with new mechanized agricultural technologies, Mexico was able to produce more wheat than was needed by its own citizens, leadingto its becoming an exporter of wheat by the 1960s. Prior to the use of these varieties,the country was importing almost half of its wheat supply.

The introduction of High Yielding Varieties (HYV) of seeds and the increased use of fertilizers and irrigation are known collectively as the Green Revolution, which provided the increase in production needed to make India self-sufficient in food grains, thus improving agriculture in India. Famine in India once accepted as inevitable has not returned since the introduction of

Green Revolution crops. Genetically modified high-yielding wheat was first introduced in 1963 by Dr. Norman Borlaug. Borlaug has beenhailed as the Father of the Green Revolution.

I) Meaning of Green Revolution

The development and use of high-yielding varieties crops in conjunction with improved agricultural technology. New breeds of crops have been developed to increaseyields by two to four times, to shorten the time required for growth such that more thanone crop a year can be produced, and to produce a plant which can withstand extremes of climate or disease. The use of Mexican wheat has doubled yields in the Punjab, and HYV rice has been used to such effect in the Philippines that imports are no longer necessary.

M.S. Swaminathan and his team had contributed towards the success of green revolution. Green revolution has had its share of bad and good things. Due to the rise in use of chemical pesticides and fertilizers there were many negative effects on the soiland the land. This method of the soil getting polluted by the overuse of chemicals is known as land degradation. Green Revolution refers to a series of research, development, and technology transfer initiatives had occured between the 1940s and the late 1970s that has increased agriculture production around the world beginning most marked inthe late 1960s.

The initiatives, led by Norman Borlaug, the “Father of the Green Revolution” credited with saving over a billion people from starvation, involved the development of HYV ofcereal grains, expansion of irrigation infrastructure, modernization of management techniques, distribution of hybridized seeds, synthetic fertilizers and pesticides to farmers.

II) Features of Green Revolution in India

A. Supply of New Inputs :

1. Adoption of HYV Seeds :

The use of HYV seeds since 1966 has resulted in substantial increase in food- grain production. Wheat production has almost quadrupled. Rice production has also increased but its rate of growth is not as high as that of wheat. The break-through in theproduction of wheat and rice has been attributed to magic seeds adopted by the farmers.The new seeds for these crops continue to be developed.

2. Supply of Chemical Fertilizers :

Besides HYV seeds, chemical fertilizer is the other input which is responsible forthe green revolution in India. Crops of high yielding varieties cannot grow properly if regular doses of fertilizers are not applied to them. In 2001-02, the total consumption of fertilizers was 17400 thousand tones.

3. Expansion of Irrigation Facilities :

Contribution of irrigation facilities in bringing about the green revolution cannot beignored. The HYV seeds required more fertilizers and use of fertilizers necessitates a regular supply of water. Total irrigation potential and utilization in India has increased
85.41 million hectare in 2000-01. Further, irrigation has reduced the risk of crop failureand has, therefore indirectly, encouraged the adoption of new variety of crops.

4. Plant Protection and Pest Control :

The new seeds, no doubt, have increased the yield per hectare of various crops. However, biologically, the crops sown through use of new seeds are more prone to diseases. The use of fertilizers for their production also increases the susceptibility ofthese crops to diseases. So, use of plant protection measures becomes necessary inorder to get the maximum yield from the new seeds.

5. Development of Infrastructure :

1. Infrastructure comprises those activities and facilities which aid in increasing production. In fact, green revolution has been successful in India because a strong infrastructure for agricultural development had already been built up during the first two five year plans. Important constituents of infrastructure are- transport and communications, regulated markets, storage and warehousing, agricultural education and training, agricultural extension and research etc. These facilities providethe farmers with sufficient incentive and also an opportunity to adopt the modern art of cultivation. Use of Machinery :

No doubt, machinery displaces labour and therefore leads to unemployment. But the new technology necessitated the use of machinery. The harvesters became necessary because these help in preparing the land for next crops in time. For timely sowing, tractors have become important.

B. Multiple Cropping Programme :

The multiple cropping programme aims at increasing the cropping intensity of land through better utilization of the existing irrigation facilities as well as development of new irrigation potential throughout the country.

C. Provision of Agricultural Credit :

The provision of cheap agricultural credit facilities has greatly encouraged the adoption of new agricultural technology and green revolution in India. Farmers need credit for the purchase of new seeds, better implements, fertilizers, insecticides and for introducing permanent improvements in land. It is necessary in this connection toemphasize that it was the institutional credit rather than the credit flowing from privatemoney lenders that needed expansion.

D. Incentive Prices :

The adoption of new agricultural technology has increased not only production but also expenditure because new inputs are to be purchased from the market. Therefore, prices of agricultural commodities must be reasonable high-so as to ensure that not only the farmers able to meet the expenditure incurred on the purchase of new inputsbut also able to reap more profits through the adoption of modern technology.

E. Developments Programmes for Small and Marginal Farmers :

The role of small and marginal farmers is not less important than that of medium and big farmers is ushering forth of era of green revolution because these farmers donot lag behind the large farmers in the adoption of production raising technology, if they are provided necessary incentives and facilities in this regard. The government has also taken special steps for ensuring that a greater proportion of the institutional credit for agriculture should flow to small and marginal farmers.

II) Success and Failure of Green Revolution in India:

When we talk about negative and positive impact of Green revolution in Indian context, with the introduction of HYV seeds in agriculture, divergent reports and conflicting opinions are expressed regarding the success and failure of green revolution.

A. Success of Green Revolution in India

1. Self Sufficiency in Food-grains :

India had been the land of famines; even today droughts, shortages of food andconsequent starvation are regular features in many parts of India. But the green revolutionattempts to produce food-grains on a massive scale in the shortest period possible tosee a day when our country will be completely self-sufficient in food grains.

2. Increased Cultivated Area :

The area of land under cultivation was being increased from 1947 itself. But thiswas not enough to meet the rising demand. Though, other methods were required, the expansion of cultivable land also had to continue. So, the Green Revolution continued with this quantitative expansion of farmlands.

3. Double Cropping :

Double cropping was a primary feature of the Green Revolution. Instead of one crop season per year, the decision was made to have two crop seasons per year. Theone-season-per-year practice was based on the fact that there is only one rainy season annually. Water for the second phase now came from huge irrigation projects. Dams were built and other simple irrigation techniques were also adopted.

4. Advantage to Farmers :

This includes their economic situation improving, even small and marginal farmers(although they were late in joining) getting better yield, control on many insects and pests, mechanizing improved working conditions of farmers.

5. Employment :

Another important benefit arising out of this green revolution is the creation of employment potential, absorption of excess labour force in the rural areas and effective use of labour. The Green Revolution also created plenty of jobs not only for agricultural workers but also industrial workers by the creation of related facilities such as factoriesand hydroelectric power stations.

6. Increased Farm Incomes :

Another welcome change, due to the adoption of this new technology, is the increased farm incomes. Increased incomes help the farmers to plough back their incomes and improve their farm organizations.

7. Farmers Attitude :

For the first time in Indian agriculture, the farmers have favorably responded to this new strategy of inputs, and it has kindled new hopes and confidence for the futureand the programme has created a revolution in the minds of the millions of farmers.

8. Increased Productivity :

Yield per unit of farmland improved by more than 30 per cent between 1947 (when India gained political independence) and 1979 when the Green Revolution was considered to have delivered its goods.

9. Irrigation Facilities

The increase in irrigation created need for new dams to harness monsoon water. The water stored was used to create hydro-electric power. This in turn boosted industrialgrowth, created jobs and improved the quality of life of the people in villages.

10. Creditworthiness

India paid back all loans it had taken from the World Bank and its affiliates for thepurpose of the Green Revolution. This improved India’s creditworthiness in the eyes of the lending agencies.

B. Failure of Green Revolution in India

1. Degradation of Land :

1. The change in land use pattern and employing two and three crop rotation every year, land quality has gone down and yield has suffered. The use of heavy chemicalfertilizer inputs in land had led to decline in carbon material. Weeds have increased :

The heavy crop rotation pattern we do not give rest to land nor have we time to employ proper weed removal system which has increased the weeds.

2. Pest Infestation has gone Up :

Pests which we used to control by bio-degradable methods have become resistant to many pesticides and now these chemical pesticides have become non effective.

3. Loss of Bio-diversity :

The heavy use of chemical pesticides, insecticides and fertilizers we have lost many birds and friendly insects and this is a big loss in the long term.

4. Chemicals in Water :

These chemicals which we have been using in our farms go down and contaminate ground water which affects our and our children health.

5. Water-table has gone Down :

Water table has gone down due to lack of water harvesting systems and now wehave to pull water from 300 to 400 ft. depth which was 40 to 50 feet earlier.

6. Loss of Old Seeds :

We have started using new seeds and lost old one since new one give better yieldbut due to this we have lost many important old seeds.

7. Inequality in Crop Production :

Wheat and rice production have increased significantly, and more land has beencultivated to grow these crops. Other crops, such as pulses, oil seeds have grown much less.

8. Inequality in Income :
2. Large and medium farmers combine crops for consumption with cash crops such as cotton, sugar cane, while small farmers have few cash crops. Poor farmers cannot achieve yields as high as those with better access to water, fertilizer and land. In brief, the green revolution creates the inequalities in incomes and wealth of the farmers in India. Fragmentation and Subdivision of Land :

Another major drawback of the green revolution is that it has created fragmentation and subdivision of land in rural areas. Many people have their own land, but it is beingdivided into smaller and smaller plots. This is due to population growth and land redistribution schemes.

B) Need of the Second Green Revolution :

It is unlikely to happen tomorrow or next year, but it possibly may happen by 2020. To achieve the forgoing amount of production a growth rate of 5% to 6% in agriculturalsector has to be maintained over next 15 years.

Current growth rate in this sector is stagnant or at the most 2% in last ten years.The latter has depleted the country's food stock and forced the government to negotiateimport of 5 million tons of wheat. With practically no more land to farm and some depletion of the agricultural land, this miracle is not easy to achieve. Science and technology has to play its big role. High productive seeds, private sector involvementand expenditure on long stalled irrigation schemes are crucial to achieve higher production.

Professor Julian Scodera and his team have found innovation in transport protinsto increase agriculture production.

If the gains of "First Green Revolution" 1970-90 are to be strengthened, then a Second Green Revolution is to be initiated. The First Green Revolution was made possible with the availability of miracle wheat variety, electricity at the farms and landreforms.

1. Agricultural Growth Rate :
1. There was a 15 years respite from a bad news on the agricultural front. A lot of food grains were exported. We in the West, with Indian heritage, who still prefer Indian basmati and daals, loved to purchase all Indian things. Hence Government of India is back into square one i.e. what needs to be done to trigger higher agricultural growth in India. We may wish to call it the "Second Green Revolution". But it is a high-end initiative with both Federal and State governments are full participants. Self- sufficiency in Food-grains :

Population growth in India is at the rate of 1.8% to 2.2% per year. With rising population and slow rate of agricultural growth, situation is likely to get alarming if notworst next in 5 to 8 years. Food self-sufficiency of nineties will be a forgotten achievements. Shortages will loom. Famines may not visit India, but shortages will visible shaken the national confidence.

2. Genetically Modified (GM) Seeds :

The G. M. seeds to double the per acreage production i.e. technology, Private sector to develop and market the usage of GM foods i.e. efficient marketing of the ideas,

3. Agri-business :

A Significant contribution is to be made by the farmers themselves. They have toget out of from the ancient mode of being peasant farmers on small land holdings. They have to become businessmen, who trade in agricultural products just like any other businessmen they have to look for the most economical way to boost productivityand profits to themselves.

4. Reestablish Farm Size :

Splitting of land holding, after a father passes away into multiple, children have depleted the economic viabilities of farms. Farm economics have to be revisited andeconomic size of the farm should be re-established. Continued dependency on government bailout during any crisis has to be minimized. Lesser the government involved, more likely is that controls and state trading in grains will be eliminated. It requires farmers to become responsible businessmen.

5. G.M. Food :

Consumer has to grow up a bit also. “Genetically Modified Food” is here to stay. Itis the salvations of the rapidly increasing population. Opposition to the GM food in India is wholly politically motivated. It has to be ended in favor of adopting new techniques toboost productivity. Forty years back, a similar political lobby opposed the introduction ofMexican wheat variety in India. This is in fact began the first green revolution. Today, results of this wheat variety is wonderful. Now a similar campaign to demonize GM food is under way. Believe it or not some of these well-tried concepts are India’s ultimatesalvation.

2. Linking of the Rivers :

India has about 150 million hectares of land under cultivation. Of the total land under cultivation, only 45 million hectares are irrigated. This delivers about 55% of the total food output. Rest of the 95 million hectares of land is rain-fed or ground water irrigated. This bulk of the land produces 45% of the total food production. The latter is the area to concentrate more to boost food output. Whereas, progressive Indian farmers can experiment with GM food in the irrigated lands, minor and major irrigation schemes have to play a major role in boosting productivity in the un-irrigated areas. This is where,the state and federal governments have to play a bigger role. More over linking of riverseconomically possible to bring surplus water of one area to others.

3. Dry Land Revolution :

Undoubtedly, India is a land of villages with 700 million people living in over 600,000 villages, many in the enormous dry lands. No developmental strategy can succeed thatneglects the rural dry lands that occur in 177 districts or 56% of India’s total geographic area, covering States such as Rajasthan, Gujarat, M. P., Maharashtra, Karnataka, A. P. and T. N. The dry lands in these states have to be targeted to increase productivity of foodgrains. If India has to succeed in a second green revolution, The care should be taken to eliminate the serious negative consequences on natural environment.

4. Participation of Private Sector :

Private Sector, instead of Government in interested to manage the Second GreenRevolution. There are obvious reasons for wishing the corporate sector’s participation in India’s Second Green revolution.

i. The above-mentioned triumvirate, which guaranteed the success of the First GreenRevolution, may be difficult it to form. Leadership issues and party politics will make any government initiative difficult to succeed. Make up of governments in last 10 years and 10 more years to come, has been and will be a hotchpotch of political ideology. Hence, it will be harder to find a coherent policy for some time tocome. Efficient delivery of services will be the key to higher agricultural output. Governments, especially the democratic governments, are not geared for efficiency and effective delivery of any services. Current food marketing and storage system all owned by the government (FCI) is key example. Rough estimates indicate thatanywhere from 20% to 30% of the food is spoiled, before it hits the dinner table.

ii. US multinationals (Wal-Mart and Monsanto) would prefer to deal with the private sector than with government officials.

B Check Your Progress

Choose the correct alternatives from the following.

1. had contributed towards the success of green revolution.

1) Anna Hajare   2) M.S. Swaminathan

3) Verghese Kurien   4) Mohan Dhariya

2. Farmers need credit for the purchase of ……………….

1) New seeds   2) Better implements

3) Fertilizers   4) All above

3. Are responsible for the green revolution in India.

1) HYV seeds   2) Chemical fertilizers

3) Technology   4) 1, 2 & 3

4. India has about ....million hectares of land under cultivation.

1) 150   2) 50   3) 20   4)10

5. is a primary feature of the Green Revolution.

1) Double cropping   2) Single

3) Double cropping or single   4) None of above

1.2.4 Nature and Causes of Agriculture Distress:

I) Nature of Agriculture Distress :

Agriculture in India is undergoing a structural change leading to a distress situation. The rate of growth of agricultural output is gradually declining in the recent years. The relative contribution of agriculture to the GDP has been declining over a period of timesteadily. The performance of agriculture by crop categories also clearly indicates theslowing down process of agriculture in India. The onset of deceleration in agriculture began from early nineties and it became sharp from the late 1990s. The trends in the area, input use, capital formation and technology use also reflect the agricultural downfalland the farmer's response accordingly.

It is alarming that India is moving towards a point of no return, from being a self- reliant nation of food surplus to a net importer of food. All these trends indicate that the agricultural sector in India is facing a distress today. It is argued that the consequenceof agricultural crisis in India is very vast and likely to hit all the other sectors and the national economy in several ways. In specific, it has adverse effects on food supply, prices of food-grains, cost of living, health and nutrition, poverty, employment, labormarket, land loss from agriculture and foreign exchange earnings.

In sum, it revealed that the agricultural distress would be affecting a majority of thepeople in India and the economy as a whole in the long run. And therefore, it can be argued that the crisis in agriculture is a crisis of the country as a whole.

II) Causes of Agricultural Distress in India:

It is argued that the root cause of the crisis was that agriculture is no more a profitable economic activity when compared to other enterprises. It means that the income derived from these activities is not sufficient enough to meet the expenditure of the cultivators. Following are the main causes of agrarian distress in India.

1. Liberal Import of Agricultural Products :

The main reason for the crash of prices of agricultural products, especially of cash crops. in India, was removal of all restrictions to import these products. The removal of quantitative restrictions and lowering of import duties were according to the restrictions of the World Trade Organizations (WTO), the crash in the prices of agricultural products is directly related to the liberalization policy of the government.

2. Cutback in Agricultural Subsidies :

In the post-reform period the government reduced different types of subsidies to agriculture, and this has increased the production cost of cultivation. Cutback in Agricultural subsidy and control of fertilizers over the last few years has adversely affected the agricultural sector. It has increased the input cost and made agriculture less profitable.

3. Lack of Easy and Low-cost Loan to Agriculture :

Since independence the lending pattern of commercial banks, including nationalized banks, to agriculture drastically changed with the result that loan was not easily available and the interest was not affordable. This has forced the farmers to rely on moneylenders and thus pushed up the expenditure on agriculture.

4. Decline in Government Investment in the Agricultural Sector :

After the economic reforms started, the government's expenditure and investment in the agricultural sector have been drastically reduced. This is based on the policy of minimum intervention by the government enunciated by the policy of globalization. The rate of capital formation in agriculture came down, and the agricultural growth rate wasalso reduced.

5. Restructuring of the Public Distribution System (PDS) :

As part of the neo-liberal policy, the government restructured the PDS by creating two groups- Below Poverty Line (BPL) and Above Poverty Line (APL)-and continuouslyincreased the prices of food grains distributed through ration shops. As a result, eventhe poor people did not buy the subsidized food-grains and it got accumulated in godowns to be spoiled to be sold in the open market. To solve this problems central government has decided to pass food security bill in parliament.

6. Special Economic Zones :

7. The economic reform, the system of taking over land by the government for commercial and industrial purposes was introduced in the country. As per the Special Economic Zones Act of 2005, the government has so far notified about 400 such zones in the country. Very often it is fertile land which has been acquired. The SEZ deprivesthe farmers of their land and livelihood, it is harmful to agriculture. In order to promote export and industrial growth in line with globalization the SEZ was introduced in manycountries. Abuse of Chemical Fertilizers :

What was traditionally the food bowl of India - the Punjab-Haryana belt - has beendevastated by fertilizer abuse and consequent soil degradation that has made agriculture an unprofitable business. Use of chemical fertilizers has jumped up from merely 0.58kg per hectare in the early 1950s to 7 kg at the onset of the Green Revolution in 1966-1967 with the adoption of high-yielding varieties of paddy and wheat fertilizer consumptionincreased during green revolution period.

8. Reducing Arable Land :

Size of land holding has been decreased in India due to increased population. It isabout 0.3 hectares per person in India. In advanced nations the area is more than 11hectares per person. In a developing country such as India, the dilemma between growth and preservation of the natural habitant will continue to be posed for some time. However, the focus has to be on improving agricultural yields through tried and tested technology, knowledge-sharing and access to energy, credit and decent infrastructure.

9. Fragmentation of Agricultural Land :

Another distress is the fragmentation of agricultural land, with the average size of the holdings decreased from 1.69 hectares in 1985-1986 to 1.33 hectares in 2000- 2001. The proportion of small and marginal landholdings (less than 2 hectares) is 82 percent in India in 2000-2001. More importantly, about 19 percent of the other holdings are in the small farms category between one and two hectares and 63 percent holdingsare Marginal farmers.

10. Agricultural Indebtedness :

It is little wonder then that agricultural indebtedness has been the bane of the sector. Indeed, at least 10,000 farmers committed suicide every year; the five worst affected states being Maharashtra, Andhra Pradesh, Karnataka, MP and Chhattisgarh. The government spent Rs. 71 ,000 crore for farm loan waiver scheme last year helpedlarge and medium farmers more than small and marginal farmers who are indebted tolocal moneylenders.
Moreover, increased funding for agriculture and rural development is a partial misconception. Standard credit delivery mechanisms do not help farmers because these banks - even the co-operative banks are not accessible by the bulk of farmers and, when they are, there is no collateral to produce for loans. Finally, when the loanscome, they are inherently risky given the vagaries facing Indian agriculture. No out-of- the-box thinking has been deployed in this calamitous space, and the substantial hikes in credit to the farmer have been commandeered by the better-placed agro industry sector.

11. Water Waste :

The rainfall in India is not evenly spread, nearly 80 percent of it coming in the four- month monsoon season from June to September. A sizable part of this water is allowed to flow away wastefully to the seas, eroding precious soil on its way. India needs to conserve this water for year-round use by storing it either in the surface reservoirs or in the underground water aquifer. None of this is happening to the required extent. Thesurface water storage capacity created in India through major and medium reservoirs and millions of small ponds, tanks and other water bodies is insufficient to hold enoughwater to meet the annual needs of the country.

12. Low Soil Fertility :

Soil fertility is also an area of concern. Maps of India show that only about 11 percent of soils are high in available nitrogen. Similarly, about 20 percent of soils are high in available phosphorus and about 50 percent in potassium. With intensive croppingusing only NPK (Nitrogen, Phosphorus and Potassium) fertilizers and limited use of organic manures, soils and crops became deficient in a large numbers of elements even as food production increased with time.

13. Climate Change :

India has had a taste of what is to come; rain-fed tracts have been experiencing three to four droughts every 10 years. Of these, two to three droughts are generally ofmoderate intensity and one is severe. Furthermore, there has been a fluctuating weathercycle with unpredictable cold waves, heat waves, floods and heavy one day downpours. While heavy rainfall early in the season adversely affected the development of pegs, the relatively drier spell at the later stage hit the development of pods. The impact of these dramatic weather cycles on agriculture is harmful. Climate change affects the small and marginal farmers the most because they can least afford irrigation. B

Check Your Progress

Choose the correct alternatives from the following.

1. The rate of growth of agricultural output is.......................in the recent years.

   1) Increased 2) Decreased 3) Both 4) None of above

2. In the post-reform period the government has ……………….. subsidies of agriculture,

   1) Constant 2) Increased 3) Reduced 4) All above

3. The government's ……………….. in the agricultural sector have been drastically reduced.

   1) Expenditure 2) Investment

   3) Expenditure and investment 4) None of above

4. Size of land holding has been decreased in India due.......................... in Expenditure and investment population.

   1) Constant 2) Increase 3) Decrease 4) None of above

5. Climate change affects the......................... farmers.

   1) Small 2) Marginal 3) Both 4) None of above

1.3 Summary:

India's agricultural economy is undergoing structural changes. Between 1970 and 2011, the GDP share of agriculture has fallen from 43 to 16 percent. India is progressing with growth rate in the range of 6% to 7 % consistently. India was even considered as one of those most fortunate countries which bore the burns ofglobal recession the least. Agriculture in India is the means of livelihood of almost two thirds of the work force in the country but it has been changing faster in recent years. The rapid growth in this sub-sector through exploitation of wastelands and fallows spread of irrigation and adoption of production enhancing technologies was critical in transforming India from a country vulnerable to food shortages to one of exportable surplus. This is largely because of the rapid economic growth in services, industrial output, and non-agricultural sectors in India between 2000 and 2010. Agriculture in India is a major economic sector and it creates plenty of employment opportunities as well.

A. As far as food grains output is concerned, the total production increased from

50.8 million tonnes in 1950-51 to 259.32 million tonnes in the 2011-12 and further to Advance Estimates for the year 2012-13 released on April, 2013, the food grains production rose to the production of 255.36 MT in this year. India has become the world's largest producer across a range of commodities due to its favorable agro- climatic conditions and rich natural resource base. India is the largest producer ofcoconuts, mangoes, bananas, milk and dairy products, cashew nuts, pulses, ginger, turmeric and black pepper. It is also the second largest producer of rice, wheat, sugar, cotton, fruits and vegetables. Though agriculture is said to be the backbone for our country, we still are lagging behind many nations in terms of agricultural productivity.

B. The use of HYV seeds since 1966 has resulted in substantial increase in food- grain production. Wheat production has almost quadrupled. Rice production has also increased but its rate of growth is not as high as that of wheat. The break- through in the production of wheat and rice has been attributed to magic seeds adopted by the farmers. The new seeds for these crops continue to be developed. When we talk about negative and positive impact of Green revolution in Indian context, with the introduction of HYV seeds in agriculture, divergent reports and conflicting opinions are expressed regarding the success and failure of green revolution.

1.4 Agriculture in India is undergoing a structural change leading to a distress situation. The rate of growth of agricultural output is gradually declining in the recent years. The relative contribution of agriculture to the GDP has been declining over time steadily. The performance of agriculture by crop categories also clearly indicatesthe slowing down process of agriculture in India. The trends in the area, input use, capital formation and technology use also reflect the agricultural downfall and thefarmer's response accordingly. The main reasons for agricultural distress are fluctuated prices of agricultural products, high rate of interest, large share of non- institutional credit, illiterate and unorganized farmers, depends up on monsoon, international forces etc. Terms to Remember:

B High Yield Varieties Seeds: In agriculture and grading, hybrid seed is seedproduced by cross- pollinated plants.

B Land Reforms: Land Reforms involve the changing of laws, regulations or customsregarding land ownership.

1.5 Answers for Check Your Progress

1.2.1	1. Decreased	2. Agriculture	3. First	4. 15%	5. above
1.2.2	1. 1951	2. All above	3. Second	4. 38%	
	5. Professional				
1.2.3	1. M.S. Swaminathan	2. All above	3. All above	4. 150	
	5. Double cropping				
1.2.4	1. Decreased	2. Reduced	3. Both	4. Increased	5. Both

1 .6 Exercise:

A) Broad answer type questions.

1. Explain the changing role of agriculture in Indian Economy.
2. Discuss about agriculture production in India.
3. Explain success of Green Revolution in India.
4. Explain the failure of Green Revolution in India.
5. State the need of second Green Revolution in India.
6. Explain the causes of agriculture distress in India.

B) Short Notes.

1. Green Revolution
2. Success of Green Revolution
3. Failure of Green Revolution
4. Need of second Green Revolution
5. Causes of agricultural distress

Indian Industries

2.0 Introduction:

At the time of Independence, India was industrially and economically backward. Even in the beginning year of the first five year plan, the primary sector accounted for58.9% of G.D.P. at factor cost, whereas the industrial sector accounted for just 13.6% of G.D.P. The strategy of development of industrial sector spelt out in the second five year plan gave top priority to industrialization.

There were some reasons for it. Firstly, the country was economically backwardand as such, the establishment of new industries on a large scale and development ofthe traditional industries was an imperative necessity. Secondly productivity of labour is generally higher in manufacturing industries. Therefore, for raising national income there is no alternative except to establish industries. Thirdly, the burden of population on agricultural sector is excessive and there is a need for surplus workforce to be transferred to other sector. Finally, industrialization induces development in other sectorsfor example, cotton, jute, sugarcane, oilseeds etc., development of transport, communication and energy is still more dependent on industrial sector.

Industrialisation may be defined as a process which accelerates economic growth causes structural changes in the economy, particularly in respect of resource utilization,
i.e. production functions, income generation, occupational patterns, population distribution, foreign trade and industrialization induce social change.

2.1 Objectives:

Following are the main objectives of the unit.

1. You will able to understand the need of industrialization

2. You will study the changing policy framework of Industrial policy in India.

3. You can understand the problems and prospects of cottage and small scaleindustries in India

4. You can understand the problem of industrial sickness.

2.2 Subject Presentation of Matter:

In this unit we will go through the need of industrialization, industrial policy, problems and prospects of cottage and small scale industries. Along with this we will study the problem of industrial sickness in India

2.2.1 Need of Industrialization :

Industrialization is regarded synonymously with economic development. It is of course true that no country could have developed and reached its current state of economic development without an easy access to a sound agricultural base. Those countries which had an underdeveloped agricultural sector could afford to make use of agricultural resources in some other dependent country; in all other countries agriculture served as the ‘leading sector’ of growth. But, it is also true that fast economic development everywhere has been made possible essentially due to rapid industrialization. The following major points will give some indications of need of industrialization.

1. Industrialisation and Agriculture :

There is a close interdependence between industry and agriculture. The development of one promotes the development for the others. This interdependencerelates to the supply of raw materials and inputs from agriculture to industry and viceversa. The supply of wage goods to the industrial sector, the supply of materials for building up economic and social overheads in the agricultural sector and the supply of basic consumption goods to the agricultural population. Industrial sector can greatly assist the development of the agricultural sector, through supply of inputs such as fertilizers, pump sets, pesticides, electric motor, tractor, power tiller, agricultural tools and implements etc. Petroleum products and electricity represent mainly the fuel consumption in the operation of pumps and tube wells and other agricultural machineries.

2. Industrialization and Productivity :

Industrialization helps to improve the productivity of the agricultural sector by providing it with improved and modern inputs. Improvement in productivity in agricultural sector creates surplus which can be utilized to support increasing labour force in industries. The removal of disguised unemployment increases the average productivity of the worker. This facilitates per capita earnings. The pull on labour exercised by theindustrial sector will also tend to increase the wage of agricultural labour. Besides, the process of industrialization is associated with the development of mechanical knowledge, attitudes and skills of industrial work, with experience of industrial management and with other attributes of a modern society which in turn, are beneficialto the growth of productivity in agriculture, trade, distribution and other related sectors of economy.

3. Industrialization and Employment :

Industrialization creates gainful employment opportunities. In other words, industrialization is as an important means to solve the unemployment problem. Agricultural sector of underdeveloped countries is characterized by the existence of surplus labour. Industrialisation will open up avenues for employing this surplus labourforce. Rapid industrialization is a must, especially for the underdeveloped countries suffering from heavy population burden.

4. Industrialisation and International Trade :

The foreign trade of the underdeveloped countries is generally characterized bydominance of primary product in export and manufactured products in imports. Industrialization may lead to a change in the composition and direction of foreign trade.The growth of import demand of the advanced countries for most primary products has lost the momentum of the earlier period and currently it lags behind the growth intheir domestic incomes and output. The volume of exports from the underdeveloped countries expanded at the rate of 3.6% per annum while the export of developed countriesrose at the rate of 6.2%. This export lag is accompanied by deterioration in the terms of trade of primary commodities. Industrialization is the only effective answer to the problems of underdeveloped countries.

5. Industrialization and Social Transformation :

Occupational mobility of labour, regional mobility of population, improvement in communications and educational levels and many other developments associated with industrialization might cause certain social changes. The weakening influence of customs and traditions and the dissemination of new ideas create a favourable attitude towards change and development.

A) Check Your Progress:

1. Industrialisation..................... agriculture

   a) promotes b) disturbs

   c) Does not depends up on d) none of the above

2. An Industrialisation is an important means to solve the ………………

   a) Problem of poverty b) problem of unemployment

   c) Problem of regional imbalances c) All of the above

3. The foreign trade of the underdeveloped countries is generally characterized by ………………

   a) dominance of primary product in export

   b) dominance of manufactured product in export

   c) dominance of service sectors product in export

   d) dominance of primary product in Import

4. Occupational mobility of labour depends on ………………

   a) social change b) Industrialisation

   c) Agricultural development d) none of the above

2.2.2 2: Industrial Policy since 1991:

A) Introduction:

After independence, the first Industrial policy was declared on April 6, 1948 by thenUnion Industry Minister Mr. Shyama Prasad Mukherjee. This policy established a base for Mixed and Controlled Economy in India and clearly divided the industrial sectors into private and public sectors. Later on ‘1948 Industrial policy’ was replaced by a ‘New Industrial policy Resolution’ declared on April 30, 1956 with the basic objective of establishing ‘Socialistic Pattern of Society’ in the country. Industrial Policy Resolution of 1956 categorized industries which would be the exclusive responsibility of the state or would progressively come under state control. Earmarking the pre-eminent position ofthe public sectors it envisaged private sector co-existence with the state and thus attempted to give flexibility to the policy framework. Though, the Government had declared a number of new industrial policies after 1956, but every new policy accepted the 1956 Industrial Policy Resolution as its base. In June 1991, Narsimha Rao Government took over charge and a wave of reforms and liberalization was observed in the economy. In this new atmosphere of economic reforms, the Government declaredbroad changes in Industrial policy on July 24, 1991. The Industrial policy initiatives undertaken by the Government since July 1991 have been designed to build on the past industrial achievements and to accelerate the process of making Indian Industry internationally competitive. It recognizes the strength and maturity of the industry andattempts to provide the competitive stimulus for higher growth.

According to the NIP, an industrial license is required under the Industries (Development and Regulation) Act, 1951 in the following cases:

A) When the project involves manufacture of an item which is on the list of industries under compulsory licensing, or

B) The project attracts locational restriction applicable to large cities with populationof more than 10 lakh, or

C) When an item reserved for small-scale sector is being intended to manufacture by an undertaking other than small-scale industrial undertakings.

B) Public Sector’s Role Diluted :

The 1956 Industrial Policy Resolution had reserved 17 industries for the public sector. The 1991 industrial policy reduced this number to eight. 1. Arms and ammunition,
2. Atomic energy, 3. Coal and lignite, 4. Mineral oils, 5. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond, 6. Mining of copper, lead, zinc, tin, molybdenum and wolfram, 7. Minerals specified in the schedule to the atomic energy and 8. Rail transport. In 1993, items five and six were deleted from the reserved list. In 1998-99, item three and four were also taken out from the reserve list. On May, 2001, the government opened arms and ammunition sector also to the private sector. Nowthe areas reserved for the public sector are- a) atomic energy, b) substances specifiedin the schedule to the notification of the Government

of India in the Department of Atomic Energy dated the 15 March, 1995 and c) railway transport.

C) MRTP Limit Goes :

Under MRTP Act, all firms with assets above a certain size (Rs. 100 crore since 1985) were classified as MRTP firms. Such firms were permitted to enter selected industries only and this also on a case-by-case approval basis. In addition to control through industrial licensing, separate approvals were required by such large firms for any investment proposals. The government felt that this was having a deleterious effect on many large firms in their plans for growth and diversification. The new industrial policy, therefore, scrapped the threshold limit of assets in respect of MRTP and dominant

Undertakings. These firms will now be at par with others, and not required prior approvalfrom the government for investment in the delicensed industries.

D) Free Entry for Foreign Investment :

In India the foreign investment were traditionally regulated and it was required toget prior approval by the government. Due to this barrier, there was undue delay in industrial business decision-making. Therefore, the new industrial policy prepared a specified list of high technology and high investment priority industries wherein automaticpermission. Presently FDI is permitted up to 100 percent by the automatic route in most of the sectors subject to sectoral rules/regulations applicable. FDI is prohibited only in the following sectors: a) atomic energy, b) lottery business and c) gambling andbetting.

E) Micro, Small and Medium Enterprise Development Act, 2006 :

Small and Medium Enterprise Development Bill 2005 (which was introduced in the Parliament on May 12, 2005) has been approved by the President and thus becamean Act. This new Act, named as ‘Small and Medium Enterprise Development Act, 2006’, has become effective from October 2, 2006. This Act makes a different category for medium level enterprises. The salient features of the Act are as follows:

1. It provides the first-ever legal framework for recognition of the concept of ‘enterprise’ and integrating the three-tiers of these enterprises, viz.; micro, small and medium.
2. Under this Act, enterprises have been categorized broadly into those engaged in

   a) Manufacturing and b) providing of services. Both categorized have been furtherclassified into micro, small and medium enterprises, based on their investment inplant and machinery or in equipment as under.

   A) Manufacturing Enterprises: Micro Enterprises investment up to Rs. 25 lakh, Small Enterprises investment above Rs. 25 lakh and up to Rs. 5 crore. Medium Enterprises investment above Rs. 5 crore and up to Rs. 10 crore.
3. Service Enterprises: Micro Enterprises investment up to Rs. 10 lakh, Small Enterprises investment above Rs. 10 lakh and up to Rs. 2 crore. Medium Enterprises investment above

Rs. 2 crore and up to Rs. 5 crore. The Act provides for a statutory consultative mechanism at the national level withwide representation of all sections of stakeholders, particularly the three classesof enterprises, and with a wide range of advisory functions, and an Advisory Committee to assist the Board and the Centre/State Governments.

4. The other features include, a) establishment of specific funds for the promotion, development and enhancement of competitiveness of these enterprises,
b) notification of schemes / programmes for this purpose, c) progressive credit policies and practices, d) preference in Government procurements to products and services of the micro and small enterprises, e) more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and f) simplification of the process of closure by all three categories of enterprises.

B) Check Your Progress :

1. First Industrial policy was declared on .... in India.

   a) April 6, 1948 b) May 9, 1951

   c) January 26,1950 d) August 15, 1947

2. To establish the 'Socialistic Pattern of Society' was the main objective of ………………

   a) Industrial Policy, 1948 b) Industrial Policy, 1956

   c) Industrial Policy, 1977 d) Industrial policy, 1991

3. In the 1956 Industrial Policy Resolution...................... industries had reserved For the public sector.

   a) 15 b) 16 c) 17 d) 18

4. On...................... the government opened arms and ammunition sector also To the private sector

   a) June, 1991 b) June 1995 c) May, 2001 d) May, 2006

5. Micro, Small and Medium Enterprise Development Act have become effective from ………………

   a) 2005 b) 2006 c) 2007 d) 2012

2.2.3 Problems and Prospects of Cottage and Small Scale Industries :

A) Problems of SSI :

There are two types of problems faced by cottage and small scale industries. External problems are those which result from factors beyond the control of the industrialists, the availability of power and other infrastructural facilities required for the smooth running of cottage and small scale industries, while internal problems are thosewhich are not influenced by external forces. The internal problems affecting the cottage and small scale industries relate to organization, structure, production channel,distributional channel, technical know -how, training, industrial relations and inadequacy of management etc. Some of these problems may be summarized as below.

1. Inadequate raw material :

Many cottage and small scale industries find it difficult to obtain the right type of raw material at the right time and at right prices. These industries are forced to use cheap and inferior raw materials. The use of such raw materials lowers the quality offinished goods. This creates the vicious circle of low profits and quality of products.

2. Lack of Finance :

The scarcity of finance and credit is the main obstacle in the development of cottageand small scale industries. The capital base of small scale industries is usually very weak since they generally have partnership or single ownership. The artisans or craftsman's running cottage industries either run their business with whatever little capital possess or take credit from the money lender. Such credit is obtained at very high rate of interest and is thus exploitative in nature. Scarcity of finance also hampers their ability to use new machinery and tools and this hinders the process of modernization in cottage and small scale sector. The non-availability of adequate amount of credit and finance from the banks and financial institutions creates a situation of financial crisis in the small-scale sector and forces the small entrepreneurs to rely on other sources likemoney lenders who charge an exorbitant rate of interest. This is extremely damaging to a small-scale units. "It not only increases the cost volume of output but also pushesback the entrepreneur in quality product. This high cost of capital results in the high cost of final products and also leads to escalation in the cost of project". Besides, there is wide gap between the loans demanded and sanctioned and also between the loanssanctioned and disbursed by the commercial banks to the small-scale sector. Considerable delay can be observed while sanctioning assistance to small-scale unitsby the financial institutions. In certain cases the officials in-charge of lending institutions, who evaluate the projects, do not possess specialized skill in evaluating the project and thereby it ends up either in non-sanctioning of the financial assistance or unnecessary delay while providing finance, both of which are harmful for the health of the small-scale unit. The delay in payment of dues by the buyers has also created severe financial problems

3. Problem of Marketing :

The cottage and small scale industries have to face a number of difficulties in marketing their products. These units often do not possess any marketing organizationand consequently their products compare unfavorably vis-a-vis large scale units. The rural artisans generally sale their products to the traders who always pay a much lowerprice and keep a high margin of profit for themselves.

4. Lack of Technology :

Technology is the key of all industries. The growth of cottage and small scale industries in India has not been very satisfactory. Despite the various provisions for its promotions in the industrial policy of the country. One of the major handicaps of cottageand small scale sector has been the absence of the latest technology which alone can ensure quality and high rate of productivity.

5. Lack of planning :

The most important problem is a lack of planning and inadequate appraisal of projects. No proper viability studies, technical or economic area carried out before unitsare sponsored. By the time, they start production, most of their earlier guesses and hopes are believed. The fact is that very small industrialists have a clear conception ofbusiness. Due to faulty planning number of the government machinery of problems arises.

6. Poor Transport Facilities:

There is problem of poor availability of transport facilities, particularly in the rural area of the country. Consequently there is a compulsion for selling the products withinthe local areas. The high cost of transport also results in increase in their prices.

7. Competition from Large Scale Industries :

It is for these reasons that the small enterprises generally find very difficult to compete with the large scale enterprises. The large scale enterprises usually do not face problems such as scarcity of finance, lack of demand, shortage of raw materials and power etc; to the same extent as the small enterprises do.

8. Increase of Sick Units :

Number of sick units have increased due to large number of sick units are non-viable and another thing is difficulty in rehabilitation of potentially viable units. As far as the sick units are concerned, there were 2,49,630 sick small industry units as on march 31, 2001, which had obtained loans from banks. An amount of Rs. 4506 crores was blocked in these units. Of these, as many as 2,25,488 units which outstanding bank credit of Rs. 3943 crores have been identified by banks as being non-viable. Only 13076 units with outstanding bank credit of Rs. 399 crore have been found to be potentially viable by the banks.

9. Impact of Globalisation :

India accepted globalization policy in 1991. In industrial policy 1991 government deregulated industrial sector through delicencing and dereservations. Government opened the doors of industrial sector for internal and external competition. These reformshad an adverse effect on the small scale sector.

10. Production Problems :

Small-scale units are often faced with the problems associated with production. The production is affected due to various factors. The predominant factor that hampersthe production process is the non-availability of suitable machinery supplies Lack of sound production planning and control system, technological obsolescence, inability to upgrade the technology, scarcity of raw materials, improper layout, high cost of inputs,government policies, power failure and shortage, underutilization of capacity, lack of research and development, are the other problems that adversely affect not only the production but also upset the cost of production as well as the quality of the finished products. In order to ascertain the problems relating to production faced by the smallscale industries.

11. Other Problems :

In addition to the problems enumerated above, the small scale industries face anumber of other problems like inefficient management, labour problem, capacity utilization, inadequate training and skills, lack of strategy, infrastructural problems, heavy burden of taxation, industrial and financial regulations, inspection, faulty governmentpolicy etc.

Several policy initiatives have been under taken during the recent year to addressthe problems faced by this sector. The provisions of the SMED act 2006, aim at facilitating their growth in terms of size and also the graduation of small enterprises into medium ones, thus enhancing their global competitiveness.

B) Prospects of Cottage and Small-Scale Industries:

The small-scale industries in India has a very good future prospects. As a matter of fact, the prospects of any industry rest on the size of market, the nature and patternof demand, customers' attitudes and behaviour, economic conditions of individual customers, cost of manufacturing and marketing, the support of government and different institutions etc. It may be noted that the small-scale industries in the countryhave been manufacturing a large number of products of varied qualities, sizes, designs,etc. It means each and every segment of the market of the country may be a potentialmarket segment for the products of small-scale industries. All the products manufactured by the small-scale industries can be marketed not only in the foreign countries but indomestic market also. Similarly, the prospects of the small-scale industries operating in India are very bright. For example, The units engaged in ready-made garments andhosiery products are equally good and within the reach of the Indian customers. Differentfood items are also being used by the Indian customers. Chemicals and engineeringproducts are also sold in the Indian markets. All these show that if a small-scale unit manufactures its products of right size and of right quality with right designs and colourcombinations, it offers the product at right price at right place and with right market information, there is no reason to believe that customers will not prefer such types of products of the small-scale units as compared to that of large modern industrial units. Apart from the above facts, there are several other factors which abundantly reveal the better prospects of the small-scale industrial units. Apart from the above, motivating forces, there are other forces too. These industries for the purpose of expanding production may easily draw required number of human resources at cheap rate. Now- a-days with a rise in literacy rate, the industries may get educated workers who can be trained for performing specific jobs easily. There are several government schemes aimed at upgrading, expanding and diversifying the small scale industrial units in the country not only for generating revenues to the units and employment to the society butalso for enhancing foreign exchange earnings of the country. If these facilities provided through various schemes are availed of, these industries can be developed tremendously. In brief, the factors which can change the face of small-scale industriesand which can make these industries very much competitive are as follows:

1. Less capital intensive.
2. Extensive promotion and support by government.
3. Reservation for exclusive manufacture by small-scale sector.
4. Project profiles.
5. Funding-finance and subsidies.
6. Machinery procurement.
7. Manpower training.
8. Technical and managerial skills.
9. Tooling and testing support.
10. Reservation for exclusive purchase by government.
11. Export promotion.
12. Growth in demand in the domestic market size due to overall economic growth.
13. Increasing export potential for the Indian products.

1) The following are the important points which highlights prospects of cottage andsmall scale industries. Employment generation :

As a matter of fact, the small-scale industries in the country have been 'making significant contribution to employment generation and rural industrialization because of their less capital intensive and high labour absorption nature. It may further be noted that these industries are ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. Hence, it may be said that the outlook of the small-scale industries in the country is positive, indeed promising, given some safeguards. The diversity in production systems and demand structures ensure long-term co-existence of many layers of demand of consumer products/technologies/processes. There will be flourishing and well-grounded Markets for the same products/process, differentiated by quality, value added and sophistication. These characteristics of the Indian economy will allow complimentary existence for various/diverse types of units. The promotional and protective policies ofthe government have ensured the presence of the small-scale industries in an astonishing range of products, particularly in consumer goods. The system of preferences for the small-scale industry products has been introduced under government purchase programme subject to a certain specific conditions. "Being a direct and positive measure of marketing aid to small industry product the system is still in vogue and covers 220 products which are exclusively purchased from small-scale sector. In addition to administering this programme, the National Small-Scale Industries Corporation is an instrument for small-scale units to participate in the purchase programmes of the railways and post and telegraphs department."

2) Raw material suppliers :

The small-scale industries occupy a very important position in any economy. Traditionally, they produce certain specialized items over which they enjoy virtual monopoly because of the skill and expertise developed over the years. Many items produced in the small-scale sector are also used as raw materials in the large-scale industry. Thus, small-scale industries contribute to large-scale production in substantialway. In a controlled economy, the small-scale industries are protected from competitionfrom the large-scale sector by means of subsidies, grants, monetary incentives from the government, reservation of certain items of production in the small-scale sector, and so on. In a free economy, however, the small-scale industrial sector is not insulated from competition from the large-scale sector for their survival and growth; they have to face competition from the large-scale sector with their own ingenuity and resources. For this purpose, they will have to take effective measures in the following areas.

A) Quality control :

The products of large-scale industries are of high quality and precious. In a freeeconomy, the products of the small-scale industry can compete with those of the large- scale sector only if the high quality is being maintained. To meet the competition fromthe large-scale sector, small-scale industries should get a good share of the export market where high-quality products are essential. It would thus be necessary for small- scale industrial units to introduce quality control measures. If necessary, they can enlistthe assistance of reputed outside agencies in this regard. In a competitive environment where low-cost quality output is necessary, the choice of technology assumes great importance. In a free economy, small-scale units would have to select such technology from the available alternatives which would generate cost-efficient and high-quality optimal output. In order to ensure this, small-scale entrepreneurs should preferably have a technical background or, at least, an understanding of the technical processes involved in production.

B) Marketing Arrangements :

Many small-scale units have perished because of their inability to sell what theyproduce. This happens because of lack of proper marketing arrangements. In a free economy, inadequate marketing arrangements would only accelerate the downfall of small-scale units, as they would have to counter competition from the large-scale sector, which enjoys a ready market for its products. The small-scale units need to conduct systematic and continuous market research and arrange to tie up with prospective buyers in order that their products may be readily sold.

C) Advertisement :

The products of the large-scale sector are widely advertised on TV, radio and newspapers and are well known. Since small-scale industrial units suffer from resourceinadequacy, most of them cannot advertise their products on the mass media. As a result, the products of the small-scale units remain largely unfamiliar to the public andthe units find it very difficult to attain their sales goals. But in a free economy, where the small-scale units will have to thrive by competing with the large-scale sector, the former must adequately publicize their products. Some funds need to be set aside for this purpose. Although, initially the profits may be low, such publicity expenditure will serve the cause of future profitability.

D) Professionalism in Management :

Many small-scale industrial units have suffered an account of proprietary management. Barring very tiny and small units, management of small-scale industries has become complex. Hence, small-scale industrial units must be managed by professional managers in order to compete successfully with the large-scale sector, which is professionally managed.

E) India is now largely a free-enterprise economy. Despite a liberalized economy, the small-scale sector in India is performing well. The policies of the government are alsodirected towards the growth of the small-scale industries. The government has sinceenhanced the investment limit in plant and machinery from Rs 60 lakh (Rs 75 lakh for ancillaries and exporting SSIs) to a common limit of Rs 1 crore. This would encourage modernization of the existing small-scale industries with the adoption of appropriate new technologies in the sector and stimulate the growth of new small-scale units. The government is also keen to provide adequate institutional credit to the small scale sectorby ensuring that working capital limits of these units are fixed by the financial institutions at a minimum of 20 per cent of their projected turnover, as prescribed by the Nayak Committee. The government plans to educate the small-scale entrepreneurs about economies of scale, arrange for upgradation of skills and technologies and strengthen export capabilities for the promotion of small-scale industries. In India, the small-scale industries are, therefore, poised for growth and development provided they adopt the above strategies to overcome competition from the large-scale sector. The prospectsof small-scale industries in a free economy are quite encouraging provided the government plays a supportive role and adequate measures are taken to meet the challenges posed up by the large-scale sector. Opportunities :

By its less capital intensive and high labour absorption nature, the SSI sector has made significant contributions to employment generation and also to rural industrialisation. This sector is ideally suited to build on the strengths of India's traditional skills and knowledge, by an infusion of technology, capital, and innovative marketingpractices. This is the opportune time to set up projects in the small-scale sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and demand structure. The diversity in production systems and demand structures will ensure long term coexistence of many layers of demand for consumer products/technologies/processes. There will be flourishing and well-grounded markets for the same product/process, differentiated by quality, value addition, and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the government have ensured the presence of this sector in a wide range of products, particularly consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology, and marketing.The process of liberalisation coupled with government support will, therefore, attract the infusion of just these in the sector. The small industry sector has performed exceedingly well and enabled India to achieve a wide measure of industrial growth and diversification.

C) Check Your Progress:

1. is the problem of SSI.

a) Lack of raw material b) Lack of finance

c) Lack of infrastructure d) All of the above

2. Technology is the .... of industries.

a) need b) mean c) key d) fashion

3. The main Problem of Production in the Small Scale Industries is due to ....

a) Lack of sound production planning and control system,

b) Technological obsolescence, Scarcity of raw materials

c) All of the above

4. In a controlled economy, the small-scale industries are protected from ………………

a) Competition from the large-scale sector by means of subsidies and grants,

b) Monetary incentives from the government,

c) Reservation of certain items of production in the small-scale sector

d) All of the above

5. Prospects of any industry is rest on ………………

a) The size of market, b) The nature and pattern of demand,

c) Customers' attitudes d) All of the above

2.2.4 : Problem of Industrial Sickness :

I) Introduction :

Industrial sickness is one of the major problems of Indian industrial sector. Industrialsickness creates problem of wasting financial resources, puts a burden on banks and also enhances the public expenditure.

According to Sick Industrial Companies Act 1985, "Sick Industrial Company" indicates an industrial company (registered for not less than seven years) which is showing accumulated losses equal to or exceeding its net worth at the end of any financial year, and has suffered cash losses also during that financial year and the immediately preceding year. Here the "Cash loss" indicates computed loss without making provision for depreciation and net worth means the total amount of capital andfree reserves. Moreover, a company will be known as 'incipiently sick' which was already eroded 50% or even more of its peak net worth during any of the preceding five financialyears. However, this Act mentioned number of exception also.

II) Nature and Magnitude of Industrial Sickness :

In recent years the problem of industrial sickness is being faced by the large, medium and small scale industries. Due to industrial sickness the problem of unemployment has also increased rapidly. So, it has created the socio-economic problem of the society. At the end of 1980, the number of sick industrial units was 24,550 and the over dues of various banks of them was Rs. 19809 crore. At the end of March 1995, there were nearly 2.71 lakh sick industrial units on the roll of scheduledcommercial banks. More than 2.68 lakh of these units were in the small scale sector which constitute about 99% of their total number. Again total number of non-small scale units covered under SICA, 1985 was 1915 and end of March 1995. Total outstandingbank credit locked in all these 2.71 lakh sick units was to the extent of Rs. 13,739 crores out of which the amount involved in SSI sick unit was Rs. 3547 crores. Again the amount of outstanding credit locked in non-SSI sick unit was Rs. 8739 crores. At the end of March 2005, total number of 1,38,881 SSI units were sick units and outstandingamount were Rs. 5380 crore.

It indicates that, the problem of industrial sickness is serious after 1980's decade. In the economic reform period the number of Multinational Companies have been increased. So, competition has increased and this competition is based on the management and technology of the industry.

The degree of industrial sickness also varied between different regions of the country. Industrial sickness is very much acute in the states like Maharashtra and West Bengal. These two states accounted nearly 365 of the total number of sick units in the non SSIcategory and 43% of the total credit outstanding. Again in respect of SSI sick units Maharashtra and West Bengal accounted about 25.4% of the total sick units under thiscategory and the total credit outstanding in these two states at the end of September1990 was the extent of Rs. 775 crores. These regions are facing concentration of sickness because these regions are characterised by the existence of industries in textiles, engineering goods and jute which are generally very much affected by industrialsickness.
Tiwari committee was appointed to probe into the problems of Industrial sicknessin 1985. On the basis of recommendations given by the said committee, government introduced Sick Industrial Companies Act (SICA) and later on in January 1987, a statutory institution named Board for Industrial and Financial Reconstruction (BIFR) was set up. Primary responsibility for tackling problems of industrial sickness is vested in the hands of Board for Industrial and Financial Reconstruction (BIFR). Since its inceptionin May 1987 till the end of September 2006 the BIFR received 6991 references under the Sick Industrial Companies Act, 1985. These references included 296 references from CPSUs and State PSUs (SPSUs). With 6991 references received, 5412 were registered under section 15 of SICA. 1,701 were dismissed as non-maintainable under the act. 760 rehabilitation schemes, including 12 by Appellate Authority of Industrial and Financial Reconstruction (AAIFR)/ Supreme Court, were sanctioned and 1,303 companies were recommended to be wound up. 485 companies have been declared 'no longer sick' and were discarded from the purview of SICA on their net worth turningpositive after the implementation of the schemes.

III) Causes of Industrial Sickness :

The causes for industrial sickness are classified into two categories, i.e. externalcauses and internal causes.

A. External Causes:

1. Problem of Power Cuts :

A number of states in the country have been facing the problem of power cut sincelast two decades. The industrial sickness problem has increased due to lack of co- ordination between the need and supply of electricity to industries. This has not been considered by the state government while farming the policy. Some of the industries have closed their production units. Due to inadequate supply of electricity the cost of production of industries have been increased. So the problem of industrial sickness has increased.

2. Inadequate Credit Supply :

One of the major causes of industrial sickness is inadequate credit supply. Small, Medium and Large scale industries are not getting the sufficient credit supply, so there are obstacles in production activities. Banks and financial institutions levied number ofrules and regulations on the industries regarding the loan. These bans have also adversely affected on the industries. So the industrial sickness is increasing.

3. Inadequate supply of Resources :

The production of each and every industry is depending on the better quality of raw material and resources. But, due to inefficient and costly transportation and communication system the resources are not available in time to the industries. So, industrial units are not running with full capacity. Under utilization capacity is the one of the major problem before the industrial sector in India. So this is also one of the cause for industrial sickness.

4. Faulty Government Policy :

Government policy is the very important factor for the development of every sector of the economy. The policy for raw material, export of goods, taxation, infrastructure,labour, etc. are the important part of the industrial policy. The products which have reserved for the small scale industries in the five year planning, now these products have been handed over to the large scale industries. So, the industrial sickness of small scale industries have increased. Government has abolished the licensing policybut the burden of various types of taxation on the industries have increased, so the profit ratio of industries have declined". Industrial units are not viable due to over taxation.So numbers of industrial units are working with under capacity and they are facing the losses. The small scale industries are not able to compete with multinational companies and domestic large scale units. There is no proper policy framed by the government to remove the industrial sickness. So, the industrial sickness problem has increased.

B. Internal Causes:

The internal causes which include various factors related to the industrial units are as below:

1. Traditional Machineries and Technology :

Most of the small scale industrial units have been using the traditional machinery and technology. The drawback of this technology is, it takes the huge time for production,low quality of production with high cost. High cost of production leads to hike in price of finished goods, whereby demand is less for the products in the market. Thus, the industrial sickness has been increasing continuously.

2. Financial Problem :

Industrial sickness is originated due to the financial problem in India. The small scale industrial unit's financial condition is very weak. These units are totally depending on the credit from the commercial banks. The non-viability of the small scale industrial units fails to repay the loans taken by the commercial banks. So, an increasing overdueshave vibrated the problem of industrial sickness.

3. Faulty Management :

One of the major causes for the increasing industrial sickness is the faulty management. There is a need to take proper decision regarding the production, quality of product, marketing, labour relation, finance, account, customer satisfaction etc. but, due to inefficient management these decisions are not taken properly. The loss of industrial units has been increasing day by day. Some of the industrial units are not using their human resources and capital properly. There is no proper future planning with the industrial units. So the problem of industrial sickness has increased.

Tiwari committee submitted its report on industrial sickness in India on 1984. In itsreport he identified the faulty management is the most important cause of sickness. Thus, committee has concluded that, "Taking into account the finding of all the studies, a broad generalization regarding important causes of industrial sickness emerges. It is observed that the factor most often responsible for industrial sickness can be identified as Management. This may take the form of poor production management, poor labour management, lack of professionalism, dissension within management, or even dishonest management".

4. Lack of Competitiveness :

The drastic changes have been emerged in the Indian economy since 1991 due toacceptance of new economic policy. The international competition has increased after 1995. But with the increase in competition the competitiveness of Indian industries have not increased. Thus, Industrial sector of India has not able to get benefits of increased competition. The management is failed to compete with modern industries.So, industrial sickness has increased.

5. Labour Problem :

Large scale industries in India have accepted the modern technology and established the huge machinery under the banner of modernization. This policy has reduced the employment opportunities for unskilled labour. Modern technology required the skilled and trained labour only. Sometime Employers are harassing the labour byasking to work more with low level of wages.

As a result of all these mentioned facts, trade unions are recoursed to agitate and strike. Hence, the strikes and lock-outs arising from strained industrial relation over the issues like wages, bonus, industrial discipline etc.

IV) Effects of Industrial Sickness :

There are different effects of industrial sickness. Which are as follows:

1. Reduction in employment opportunities
2. Widespread labour unrest due to closer, threatening industrial environment of the country.
3. Wastage of huge resources invested in sick industrial units.
4. Creating disincentive among the entrepreneurs and investors due to widespread closure of units.
5. Creating adverse impact on the other related units through backward and forward linkages
6. Causing huge financial losses to banks and financial institutions and locking up huge funds into these sick industrial units
7. Resulting huge loss of revenue to Centre, State and Local governments.

V) Remedial Measures to tackle the industrial Sickness:

The core issue emerges out of industrial sickness as that sick units should be taken over by the government immediately to protect the interests of country as well ascreation of employment. The industrial sickness problem has to be handled with due concern for socio-economic implications. Therefore, special arrangements are needed to deal with the complex problem of industrial sickness. A brief discussion on the measures of rehabilitation and revival of sick units are as under.

1. Steps by Banks :

The commercial banks should come forward to grant various concessions to sick industrial units in order to rehabilitate them. These concessions are such as a) recovery of interest at reduced rates, b) freezing a portion of outstanding in the accounts, c) grant of additional working capital facilities, d) suitable remuneration or payment of interest and e) a special cell has been made within rehabilitation finance division by Industrial Development Bank of India. The main functions of these cells are to attendthe references from banks in case of their sick units and problems.

2. Steps taken by Government :

To support the sick industrial units government has provided concessions withoutany direct intervention. Some of them are as follows.

a) Government has amended the Income Tax Act in 1977 by addition of Sector 72 A.According to this amendment, tax benefit is allowed to healthy units when they take over the sick units by amalgamation with a view to revive them.

b) A revival scheme was introduced by the government in the year January, 1982. As per this scheme, provision has been made to provide margin money to sick unitsin the small scale sector at soft term to enable them to obtain necessary funds from banks and other financial institutions.

c) The government has approved the revival packages for 19 sick Central Public Sector Enterprises (CPSEs). These 10 CPSEs are among 30 enterprises whose revival has been recommended by the Board of Reconstruction of Public SectorEnterprises (BRPSE). The BRPSE has been set up to address the task of strengthening, modernizing, reviving and restructuring of CPSEs and it will advise the government on strategies, measures and schemes related to them. In case of some of the 30 CPSEs the BRPSE has recommended revival through joint ventures or disinvestment. The BRPSE has also recommended the closure of Bharat Ophthalmic Glass Ltd. with regard to the cement corporation of India Ltd.,BRPSE has suggested that non-operating units be closed but other operating units be revived. According to the information released by the Ministry of Heavy Industries and Public Enterprises, 41 CPSEs have been incurring the recurring losses for five years and every effort will be made to revive sick companies but chronically loss-making firms will either be sold off or closed after all workers gettheir legitimate dues and compensation. In order to deal with the problem of Industrial sickness, the government laid down various guidelines in October, 1981 for the guidance of administrative ministries.

   (i) The administrative ministries in the government have been given specific responsibilities for taking remedial action and preventing industrial sickness,

   (ii) In order to take corrective action for preventing incipient sickness, the financial institutions will strengthen the monitoring system and may take-over the management of unit for its revival.

   (iii) Whenever the bank and other financial institutions fail to prevent sickness ofsick unit thereafter reporting the matter to the government they recover their outstanding dues with normal banking procedures.

d) Appointment of Goswami Committee :

As Liberalisation initiated in 1991, it was felt essential to take some preventive steps to check growing industrial sickness in the country. In April 1993, a committee on Industrial Sickness and corporate restructuring was constituted and Dr. Omkar Goswami of Indian Statistical Institute was appointed as the chairman of this committee. It submittedits report to the Ministry of Finance on July 13, 1993. The committee suggested a newdefinition of Industrial sickness and also gave recommendations to modify SICA androle of BIFR. The committee made it clear that in previous years of BIFR adopted the policy of rehabilitation of sick units instead of closing them. The committee objected this approach with the view that any financial assistance granted under rehabilitationpolicy is indirectly a reward the inefficient and irresponsible entrepreneurs. The Committee had also made it clear that this rehabilitation certainly provides a relief to the labourers in short run but this relief is not long lasting. 'A stitch in time saves nine'should be the motto for closing down sick units so that labourers may seek alternative employment opportunities at their earliest. Closing down of sick units will put a checkon wastage of public money to accelerate the process of closing down the sick units. The committee has recommended to establish Fast Track Winding up Tribunals in five metropolitan cities in the countries, i.e. Mumbai, Kolkata, Chennai, Delhi and Bangalore.

3. Liberalized Margin Money Scheme :

A liberalized margin money scheme was introduced with the sole aim of reducing sickness in small scale sector in the year June 1987. Under this scheme, the State Governments are to make a matching contribution on a 50: 50 basis to provide assistance to sick units. The maximum limit of assistance has been increased from Rs. 20,000 to Rs. 50,000 per unit.

4. Industrial Reconstruction Bank of India :

Industrial Reconstruction Bank of India (IRBI) was set up in 1971 to rehabilitate the sick units. The major objectives of this bank was: a) to restructure management by providing technical and management guidance, b) to advice the management with regard to product-mix and allied matters, having a close follow up of the course of reconstruction, c) to asses and remove shortcomings leading the units towards sicknessand d) to receive and revitalize industrial units which have closed down.

B Check your Progress:

1. Industrial sickness creates …………………..

   a) problem of wasting financial resources

   b) Employment opportunities

   c) Distribution of Work

d) Increase the number of production units.

2. A committee on Industrial Sickness and corporate restructuring wasconstituted under the chairmanship of Mr. Omkar Goswami in ……………..

a) April, 1993 b) April, 2000 c) April, 2005 d) April, 2010

3. Industrial Reconstruction Bank of India (IRBI) was set up in ………………..

a) 1971 b) 1975 c) 1980 d) 1991

4. What is the full form of BRPSE?

a) Board of Reconstruction of Private Sector Enterprises

b) Board of Reconstruction of Public Sector Enterprises

c) Board of Restore of Public Sector Enterprises

5. Board of Replace the Public Sector Enterprises What is the main objective of Industrial Reconstruction Bank of India?

a) To rehabilitate the sick units b) To amalgamation the sick units

c) To close the Sick units d) None of the above

2.3 Summary:

Industrial sector is very important along with agricultural sector in India. For the success of five year plans small, medium and large scale industries developed along with agricultural sector, industrialisation has accelerated the development space of Indian economy. Presently, the industrial growth rate is crossing double digits. Since1951 industrialisation has played a vital role in overall development of Indian economy. Industrialisation helps to improve the productivity of agricultural sector which generates employment with in itself and in agricultural sector. Industrialisation proved fruitful in changing the social structure of India, by providing basic needs e.g. education and communication facilities etc.

Although, there has been an impressive development of large-scale industries during about five decades of planned development, India still remains a country predominantly of cottage and small scale industries which occupy an important place in Indian economy due to employment generation, capital formation, skill light, import light, balanced regional development, cultural heritage, political advantage etc. But, now a days there are number of problems faced by the small enterprises in the countryand they find it difficult to make greater contribution to the economic development at national level.

The concept of industrial policy is comprehensive and it covers all those procedures, principles and policies, which control the industrial undertakings of a country and shape the patterns of industrialization. India was denied the benefit of a sound and well-thought out industrial policy for the development of the country under the British rule. The advent of independence, however, brought a fundamental change in this respect. After independence, the Government of India announced its first industrial policy in April, 1948. Several important changes and developments took place in the country after the independence. So Government has revised and changed the industrial policy from time to time. Since July, 1991, Indian industry has undergone a sea-change in terms of the basic parameters governing its structure and functioning. The New Industrial policyof July 24, 1991 seeks to complement the process of structural reforms already initiated by the Government in the areas of trade policy, exchange policy, fiscal policy and overall macro-economic policy management.

The problem of industrial sickness has become very acute in India. It has adverselyaffected the ‘health’ of the industrial sector in particular and the economy in general. The problem of industrial sickness has grown over the years and a large number of industrial units in the small-scale sector and large scale are affected by it. There are two types of causes for industrial sickness i.e. internal causes and external causes. On account of the consequences of industrial sickness, it was for long regarded as a ‘social problem’ in Indian economy. Accordingly, various concessions and incentiveswere offered to sick units to help them regain their ‘health’ and stand on their own feetonce again.

2.4 Key Words:

1. Industrial Sickness : Industrial Company which has accumulated losses in any financial year which are equal to 50 percent or more of its average net worth duringfour years immediately preceding such financial year.

2.5 Answers to Check Your Progress:

A)	1 – a	2 – c	3 – a	4 – b	
B)	1 – a	2 – b	3 – c	4 – c	5 – b
C)	1 – d	2 – c	3 – d	4 – d	5 – d
D)	1-a	2 – a	3 – a	4 – b	5 – a

2.6 Questions for Self-Study :

A) Write Short Notes

1. Need of Industrialisation

2. Problems of Small Scale Industries

3. Industrial Policy 1991

4. Industrial Sickness

B) Long Answer type questions

1. State the need of Industrialisation

2. Explain the problems and prospects of Cottage and Small Scale Industries

3. State the changes in Industrial Policy since 1991

Give a detailed note of the Industrial Sickness

Service Sector in India

3.0 Introduction:

We have studied the need of industrialization, Industrial Policy 1991, and the problems and prospects of small and cottage industries in India. In the unit No. 2. Here,in this particular unit No. 3, we have to study the detail information about the service sector in India. In this unit we will get information about the meaning and composition of service, sector, increasing importance of service sector in India, significance of Banks, Financial Institutions, and Insurance sector, and importance of IT, Transport, Communication and Tourism Industry in India. Since last 20 year, service sector in India is increasing due to its benefits for Indian Economy.

3.1 Presentation of subject matter:

Secondary and tertiary or service sectors plays the important role in the development of an economy. When the primary and secondary sector develops in a country, the service sector also increases, which leads to the economic developmentof a country. In India since 1991, the service sector has made tremendous progress. In this unit, we will get detail information about service sector in India.

3.1.1 Meaning and Composition of service sector :

The service sector includes the “Soft” parts of the economy i.e. activities related to knowledge and productivity. Generally, the service sector consists retail trading, transport, banking services, insurance and financial assets as well as public and individual services provided to the society. Now-a-days we also include Hotel business tourism industry, transport and communication tools, and computer and software servicesin the service sector.

According to the U.S. Census Bureau, the service sector primarily consists of truck transportation, messenger services, and warehousing and information sector services. The production of information is also regarded as a service, but some economists nowattribute it to a fourth sector.

The tertiary or service sector of industry involves the provision of services to otherbusiness as well as final consumers. Thus, it seems that service sector denote the various types of services provided by the agencies to the community through private and public level. It is necessary to take information about the composition of servicesector to an economy.

A) Composition of Service Sector :

There are three main components of service sector given as below.

a) Trade transport, warehousing and communication services.

b) Financial institutions, insurance, real estate and business activities.

c) Cumulative and individual services rendered to the society.

Service sector can be classified either by using the country's own definition or byusing the United Nations Central Product Classification (UNCPE). The UNCPE is used as a basis for international institutions like WTO, GATT, G-20 by the firms of service sector. At present, In Indian national Industrial Classifican (NIC) provides the composition of services since 2008 as under.

A) Whole sale and retail trade, repair of motor vehicles and motorcycle.

B) Transportation and storage.

C) Accommodation and food service activities.

D) Information and communication.

E) Financial and insurance activities.

F) Real estate activities.

G) Professional, Scientific and Technical activities.

H) Administrative and support service activities.

I) Public administration, defense and compulsory social security.

J) Education.

K) Human health and social work activities.

L) Art, entertainment and recreation.

M) Activities of households as employer.

N) Activities of extra-territorial organizations and bodies.

O) Other service activities.

According to the constitution of India, service sector is divided in to the 3 major parts. This classification of service sector is as under.

A) Union List service :

These services are under the jurisdiction of the Central Government. The services of telecommunications, postal broadcasting, financial services, insurance National Highways and mining are in this particular union list.

B) State List services :

These services are under the jurisdiction of state Governments. Health related services, real estate services, incidental to agriculture, hunting and forestry are the components of State List.

C) Concurrent List Services :

These services are under the joint administration of Central and State Governments. The services related taxation, accounting, architectural, engineering, urban planning medical and dental services electricity education, printing and publicity are comes under concurrent list.

There are 4 different types of services included in the service sector of Indian economy for calculating the share of services sub-sectors in GDP since 1951. The composition of service sector in India is based on the following types of services.

A) Community, social and personal services.

B) Financing, insurance, real estate and business services.

C) Trade, hotels and restaurant services.

D) Transport, storage and communication.

In this way, composition of service sector in India is considered as the services provided by Government, private and individual level services to the community. Now-a-days FDI in India as well as various services has also enhanced the composition of service sector in our economy. The growing importance of this sector reveals the scope and revised composition of services in India. Since 1991, the number of services rendered by the various agencies, denotes the wide scope of service sector in India.

B Check your progress.

Choose correct alternatives given below.

1) Generally an economy is divided into .... sectors.

a) 2 b) 3 c) 4 d) 5

2) The service sector includes .... parts of the economy.

a) soft b) hard c) major d) double

3) The production of information is generally regarded as a ………………

a) business b) industry c) services d) firm

4) According to NIC, there are .... types of services in service sector.

a) 10 b) 15 c) 20 d) 21

5) According to the constitution of India, the service sector is classified in … .... types of lists.

a) 3 b) 4 c) 6 d) 7

3.1.2 Growing Importance of Service Sector in India:

Since 1951, India has accepted economic planning for development. After implementation of five year plans for economic development of a country, Central and State Governments have given stress to develop primary, secondary and service sector in India. During 1950-51 to 2009-10 one important change is noticed that therehas been growing size and volume of service sector in India. We can realies the growing importance of service sector by its share in GDP and other sectors performance whichhas been shown in the table No. 3.1. Table No. 3.1

Growing Importance of Service Sector in India.

Rs. In crores.

Year	Share of sector in GDP			Total of GDP at 1993-94 prices
	Primary	Secondary	Service	
1950-51	83,154 (29.2)	18,670 (13.3)	36,642 (27.5)	1,40,466 (100)
1970-71	1,37,320 (46.3)	62,258 (21.6)	95,331 (32.1)	2,96,909 (100)
1980-81	1,59,293 (39.2)	95,055 (23.7)	1,46,753 (36.6)	4,01,128 (100)
1990-91	2,23,114 (32.2)	1,88,601 (27.2)	2,81,115 (40.6)	6,92,871 (100)
2000-01	3,04,666 (24)	3,38,165 (26.7)	6,25,114 (49.3)	12,67,945 (100)
2009-10	7,61,083 (17)	11,61,715 (26.1)	25,41,283 (56.9)	44,64,081 (100)

Source : 'Indian Economy' Dutt and Sundaram by Ashwani Mahajan (2012) 65th Revised Edition.

Table No. 3.1 shows us the progress of primary, secondary and service sector in India's GDP during 1950-51 to 2009-10. The figure shown in the table denotes the growth of all above mentioned sector since 1950-51. Here, we observe that the amount of all sectors share GDP in India is at increasing level. But, the amount and share of service sector has been growing fast. The amount and share of service sector to GDP is increasing from Rs. 36,642 crores to Rs. 25,41,283 during the period of 1950-51 to2009-10. The share of this particular sector in the GDP has also increased from 27.5%to 56.9% during the same period. It also reveals that the importance of service sector isincreasing continuously since 1950-51.

Performance of source service to the total service sector in India – Since 1050- 51, the size and growth of service sector denotes its considerable progress. The share of community, social and personal services, financial services, trade services, hoteling services , transportation as well as communication services in India's GDP in a particular year has also made greater advancement. We can see the growing importance ofthese services with the help of Table No. 3.2.

"Performance and progress of some services in India."

% to GDP at 1999-00 and 2004-05 prices.

Items	1950-51 Sahre in Services	1970-71 share in services	1990-91 share in services	2009-10 Share in services
A) Community, Social and Personal services	35 (10.4)	35.1 (12.6)	33.2 (13.4)	26.1 (14)
B) Financing, insurance and business services	25.2 (7.2)	20.3 (7.3)	22. (8.9)	27.3 (14.7)
C) Trade and hoteling Services	28.5 (8.5)	30.2 (10.8)	28.5 (13)	29.4 (15.8)
D) Transport, storage and communication	11.3 (3.4)	14.5 (5.2)	15 (6.9)	17.3 (9.3)

Source: Office of CSO information by internet.

Table No. 3.2 reveals the performance of services rendered by the service sector in India during 1950-51 to 2009-10. The table also denotes the share of different typesof services in India's G.D.P. during the same period. The share of community, socialand personal services to the total services has declined from 35% to 26.1% during 1950-51 to 2009-10, but its share in GDP of these services has increased from 10.4% to 14% during the same period. On the contrary, the share of financial, insurance andbusiness services to the total services and GDP has increased from 25.2% to 27.3%and 7.5% to 14.7% respectively. The important change reveals in the table regardingthe share and GDP contribution in Indian economy about trade and hoteling services. The GDP has increased from 28.5% to 29.4% and 8.5% to 15.8% respectively duringthe period of 1950-51 to 2009-10. Here, we also realize that the trends of the share of transportation and communication services to the total services and the share in the GDP has increased slowly but stedily form 11.3% to 17.3% and 3.4% to 9.3%respectively.

Thus, the table No. 3.2 shows us that the growing performance of services sector in Indian economy since 1950-51 to till 2009-10.

B Causes of Growing Importance of service sector in India:

Since 1957 the service sector has been growing very fast due to its importance in Indian economy. There are various services provided by this sector i.e. banking, insurance, IT, transportation, communication and tourism etc., which are the basis ofeconomic development since 1991. Now, we will see the different causes of growing importance of service sector in India.

A) Share in Employment :

The service sector has provided a lot of employment opportunities in a developingand most populous countries. The observations of NSS (National Sample Survey) reveals us that the share of agriculture sector in respect of providing employment opportunities has increased since 1990-91. The total employment generated in this sector has increased from 14.6% to 29.4% during the period of 1972-73 to 2006-07. The services of banking, transport and communication, trade, insurance, hoteling, tourism etc. have generated the employment to the Lakhs of people directly and indirectly. Due to this the importance of service sector has increased.

B) Expansion of IT industry :

C) The service sector has become popular due to the expansion of information technology (IT) industry since last 20 years in India, the revolution in computer and communication in this sector enhanced the economy. The percentage of use of computer, mobile, banking facilities tourism facilities have increased the importance of service sector in India since 1990-91. Now a days, in India, the number of persons who are daily using T.V. newspapers, radio, telephone, mobile, internet and personal computerhas been increasing day by day. Thus, the development in information technology industry has enhanced the importance of service sector in India. Increase in export of software and other services :

One of the basic cause of growing importance of service sector is of rising trendof export related to information technology equipments and other services. The total value of export of software and software services of India has increased from Rs. 6530 crores to 2,35,080 crores during the period of 1997-98 to 2009-10. Since 2005-06, India's export of these services have been increasing very fast to the nations of NorthAmerica, U.S.A. Canada and European countries. Due to this the importance of servicesector has increased.

D) Rise in demand of services from rural area :

This is also one of the important factor of growing importance of service sector inIndia. The total demand for services like insurance, banking, transportation, communication tools and information technology for economic development of community. The use of mobile, computer, internet, buses, hoteling and restaurants inrural area has increased the importance of services sector in a country.

E) Increase in foreign reserves by service sector export :

India's foreign reserves is increasing since 1991-92. The total value of foreign reserves in India has increased from 42 billion dollars to 279.1 billon dollars during theperiod of 2000-01 to 2009-10 due to the rapid expansion of service sector export. The export of information technology tools and tourism services plays vital role in it. Thus,the progress of service sector is responsible for the increasing trend of India's foreignreserves.

In this way, the above mentioned causes enhanced the importance of service sector. Now a day's service sector in India is the base of country's economic power inthe world with the help of improvement of this sector in future.

B Check your progress.

Choose correct alternatives given below.

1) India has accepted economic planning since ____________

2) a. 1950 b. 1957 c.1961 d. 1991 there are_____main sectors of a economy.

a. two b. three c. four d. seven

3) The share of_____________sector has been increasing since 1991 onwards inIndia.

a. Primary b. Secondary c. Service d. trade

4) _______is a type of service sector.

a. Financial Institutions b. Agri-business

c. Small scale industry d. Dairy industry.

5) The share of employment in service sector is___________in India.

a. Stable b. increasing c. decreasing d. Fixed.

3.1.3 Significance of Banks, Financial Institutions and insurance:

Banking services, non-banking financial institutions and insurance facilities are included in a service sector. The growing need of finance and insurance facility is thebase of economic uplift of an individual and national level at large. Since 1957, these services have been increasing very fast due to the need of it in economic planning of India. Generally, banking services in India are divided in there different parts i.e. public, private and co-operative sector. Government of India has nationalized 14 private commercial banks for the various purposes in 19th July 1969. Now a days there are 28nationalised commercial banks and their 84604 branches are working in India to fulfillthe financial needs of primary, secondary and service sector. But since 1991, the number of financial institutions has also been increased due to the impact of NEP. The expansion of banking and financial services played important role in Indian economy.

A) Significance of banking and financial institution in Indian :

Banks and financial institutions are the basis of overall development of Indian economy. As on

31-3-2010 there are 28 nationalized banks with the 84604 branchesare working in India. The cooperative banks are also fulfilling credit needs of needy people at state, district and village level in the form of SCB, DCCB and PACS. On thecontrary, financial institutions have been set up by Government of India since independence. Presently, following financial institutions are working in India as a part ofservice sector.

A) Industrial Finance Co-operation of India (1948)

B) Industrial Investment Bank of India (1985)

C) Industrial Development Bank of India (1964)

D) Industrial Credit and Investment Corporation of India (Now converted into ICICI Bank)(2002)

E) Small Industries Development Bank of India (1950)

F) 18 State Financial Co-operations (1957)

G) Life Insurance Co-operation of India (1956)

H) Unit Trust of India (1964)

I) General Insurance Corporation of India (1972)

J) National Bank for Agricultural and rural development (NABARD)(1982)

K) Export Import Bank of India (1982)

L) National Housing Bank of India. (2000)

All above mentioned financial institutions have practical significance in India's creditneeds of small, medium and large scale industry's development, now, we will see the significance of banks and financial institutions in India since 1957.

India is a developing country and has accepted economic planning for overall sectors development. Banking and financial institutions are playing. Vital role in Indian economy. The significance / importance of banks and financial institutions are important for knowing the progress of primary, secondary and service sector in India. The following points clears the significance of these institutions.

1) Agriculture and Rural Development :

Agriculture sector is the base of Indian economy. This sector is important for 74% of rural family's economic status. Since 1957, banking sector plays crucial role in thedevelopment of agriculture and allied industries in rural area. Due to the expansion of banks and financial institutions, 70% of credit needs have been fulfilled, so that agriculture and allied subsidiary industries have been developed in India. At present 38% (32494)Branches of nationalized banks are working in rural area. Bank per population has come down from 63000:1 to 14000:1 during the period of 1969 to 2010. On the contrary, financial institution have been given employment opportunities to the rural educated youths in India.

2) Rise in finance to priority sector :

Due to the expansion of banks and financial institution, the percentage of lending facilities has increased to priority sector i.e. agriculture, fishery, small scale and cottageindustries in India since 1957. The total advances given to priority sector has increasedfrom Rs. 440, (12%) Crores to 7,20,083 Crores (42.5%) during the period of 1969 to March 2009. Now-a-days some financial institutions like IDBI, ICICI, UTI are giving loansto area based industries in India. Thus, banks and financial institution have greater significance for priority sector by way of credit facilities.

3) Deposit Mobilisation :

Since 1990-91 banks and financial institutions have played vital role in deposit mobilization from rural and urban areas. The total amount of deposits has increased from Rs. 1,92,541 Crores to Rs. 44,92,826 Crores during the period of 1991-92 to 2009-10 in India. The rapid growth of branch expansion in rural and urban areas leads to the tendency of deposit mobilization. Due to this, the size and growth of credit facilitieshas also enhanced.

4) Creation of employment opportunities :

The significance of banks and financial institution are important for generating employment opportunities in rural as well as urban areas. Since independence, this sector is growing very fast. The employment opportunities have been created in nationalized banks, private banks, cooperative banks and financial institutions on large scale directly and indirectly. The finance given by the banks and financial institutions to the schemes announced by central and state Governments created lakhs of employment opportunities in rural and urban areas in our country. On the contrary since last 20 years, number of posts advertised by the different types of banks and

financial Institutions lakhs of youths have obtained job opportunities in this particularsector.

5) Development of trade and other services in India :

The growth of banks and financial institution leads to the domestic and foreign trade of India. The volume of India's foreign trade has enhanced from Rs. 91,893 Croresto Rs. 28,26,116 Crores during the period of 1990-91 to 2010-11. The finance given bythese institutions leads to the educational institution, tourism industry and transportation facilities in India. The role of nationalized banks, cooperative banks and other financial institutions like IDBI, ICICI, EXIM bank in the development of India's service sector isvery crucial.

6) Importance for reducing regional disparities in India :

The significance of banks and financial institution is more beneficial for reducingregional disparities in a country. Due to the expansions of thousands of branches of financial institution, the credit needs have been fulfilled by the lakhs of villages in India. Banks role in providing finance to rural and backward states removed economic andregional disparities. The states like Bihar, Orrisa, W. Bengal, Manipur, Assam have made considerable progress with the help of banking facilities available to then since1991. Thus, banking sector and financial institutions has a great significance for removingregional disparities in India.

B) Significance of Insurance in India :

Insurance is necessary for everyone to overcome the uncertainty arises in a life. Basically, two types of insurance facilities are being provided by insurance companiesto the community i.e. Life Insurance and Non-Life General Insurance. Life Insurance means life risk is covered under insurance policy. The examples of life insurance are Term Insurance, Endoment policy etc. Non-Life Insurance are covered under General Insurance. The examples of General Insurance are mediclaim policy, Accidental policy, Motor Insurance Policy and Fire & Marrien Insurance policy etc. In India since 1956 life Insurance Corporation of India provides the insurance facility to a person with its variety of schemes. There are number of Government and non-government insurance companies developed in India from 1990-91. Some of the important companies providing insurance facility to the people are as follows.

A) Life Insurance Corporation of India.

B) New India Insurance Company Ltd.

C) United India Insurance Company Ltd.

D) Oriented India Insurance Company Ltd.

E) Bajaj Allianz Company Ltd.

F) Max New York Company Ltd.

G) SBI Life Insurance Company Ltd.

H) Reliance Company Insurance Ltd.

The above mentioned public and private sector insurance companies have a greatersignificance in Indian economy. Now a day's many Indians were covered under insuranceschemes announced by various companies. Now, we will consider the growing significance of insurance services in India.

1) Removal of uncertainties :

Insurance facility is very important for the development of human beings as wellas overall development of a country. In a developing country like India, Insurance services are very much necessary in rural as well as urban society for reducing uncertainties. The insurance companies for provides protection risks and uncertainties arises in a business or human life. These institutions gives us a sense of security. When the uncertainties are removed from which it arises in the business helps to increase the income level and satisfaction of human beings. Thus, insurance services are necessary for the removal of risks and uncertainty which arise at both level.

2) Solution for social problems :

Now-a-days every personal life has become problematic due to uncertainty andrisks. There are many uncertainties arises in a country i.e. accidents, injuries, old age, disability and financial crises which decrease the productivity of the every sector in the country. In this situation insurances is the best solution to overcome it. Insurance companies in India gives assurance to many families and businessman to overcomethe complexities of life.

3) Employment Opportunities :

Insurance service are very important in a developing countries like India which provides thousands of employment opportunities. Now-a-days LIC,GIC and other insurance companies in India are not only doing the business but also they provide direct and indirect employment opportunity to the needy people. Due to the smooth functioning of LIC and other insurance companies in India, lakhs of people obtained ajob and improved their economic and social life. Thus, this service has a great significance of India.

4) Insurance facility protects mortgaged property :

Insurance facility is necessary for protecting mortgaged property i.e. house, building,factory etc. if the property is insured even after death or injuries of a owner, the dependent family can lead satisfactory life, because insurance will provide adequate amount to the dependents at the early death or injury of owner. Similarly, insurance company canalso provides adequate amount to the mortgaged property owner in a critical positionor uncertainties such as destruction of property etc. Thus, insurance gives protectionto the owner of property at the time of uncertainties.

5) Insurance eliminates dependency :

Insurance facilities eliminates the dependency of the family members when the causality of family head or father who always look after the family. After the death or heavy injury to head of the family member, the family members have to suffer a lot. Here, the insurance company with its coverage pack of a scheme adopted by a person, gives more protection to his family members. Now-a-days, LIC and other private insurance companies in India provide adequate amount at the time sufferings.

6) Insurance company provides profitable investment :

7) Now-a-days, individual cannot get proper information about the investment schemes which are more beneficial to the people, most of the insurance companies in India always gives proper guidance to the investor. LIC has a different type of plans which gives us maximum returns as well as assurance of life through proper way. Thus, insurance provides the guidelines to the consumers for profitable investment. Life insurance encourages savings attitude among the policy holders :

Most of the personal LIC policies provides us personal insurance and savings. Due to the regular premium paid by the policy holder, a systematic saving is possible.LIC of India provides us assured income with insurance facility. Some of the scheme of LIC related to the health facilities, gives us more amount than the bank deposit facilities. Thus, insurance encourages the policy holder's savings capacity.

In this way insurance companies in India are playing vital role in personal, social and national development through their attractive plans. So, the significance of insuranceis an important for human and social welfare.

B Check your progress.

Choose correct alternatives given below.

1) Banking services are always included in a___________sector of the economy.

a. Primary b. Secondary c. Service d. insurance

2) Banking sector is divided in to___________different parts in India. a. 2 b. 3 c.5 d.7

3) Financial institutions have___________regional disparity in India.

a. Increased b. reduced c. remain constant d. developed.

4) Insurance facility is necessary for_____________to everyone.

a. Reducing povery b. Reducing uncertainties

c. increasing profit d. share market progress.

5) ___________is the most popular insurance company in India.

a. LIC b. GIC c. SBI Life insurance d. Bajaj Allilanz

3.1.4 Importance of IT, Transport, Communication and Tourism Industry :

A) Now-a-days service sector is growing significantly. The scope of this particular sector is also increasing in India in last 20 years. The share of information technology (IT), transportation, means of communication and tourism industry in the GDP have given greater significance to the service sector in India. Now, we will see the importanceof all these facilities rendered by the service sector to the community. importance of IT :

21st century is called a century of information technology, Information technologyincludes the wider use of computer, internet, mobile phones website information for thesmooth functioning of all sectors of an economy. India's economic development in a business, management and other services rely upon the use of information technology. The following points shows the importance of information technology in different fieldsof the economy.

1) Information technology is useful for educational development from K.G. to P.G. and research purposes.
2) Use of the tools of information technology has enhanced the turnover of a business.
3) Most of the management skills have developed due to the proper use of information technology i.e. banking operations, accounting system, providingretail and whole sale level products to the consumers of a country.
4) The increasing trend of use of IT in manufacturing industry have created thousands of directly and indirectly Employment opportunities.
5) Information technology is important for increasing research activities in a country. Now-a-days majority of research depends upon the availability of current information and deta analysis.
6) Information technology is the better access to children with disabilities.
7) Distance education is possible though information technology tools i.e. e-mail, online examination system etc.
8) IT also saves the time of many routine tasks in a business or services.
9) Information technology is the best source for immediate information for different purposes i.e. in education, business transactions, services rendered by the means of transport and communication.
10) Now-a-days, it is a requirement of the society and an individual to posses the technological literacy through information technology tools for overall development.

B) Importance of Transport :

Transportation is a mirror of the progress of a nation. The modern world is totallydepending on the smooth functioning and progress of means of transportation. Transport means to carry something from one place to another. According to Marshall, transport industry plays an important role in the development of human beings activity in every stage of advanced civilization. Road, rail and air transport facilities have a greater significance in the development of a nation. Now, we will see the importance of transport in a following way.

1) Economic significance of transport: Transport facility is an important for economic development of a society. We can explain economic importance of transport by the following points.

a) Transportation is important for the exchange of goods and services.

b) Transportation leads to increase the demand and supply of goods and serviceswhich are consumed by society.

c) Exchange of goods and services from one place to another is possible onlythrough the means of transport.

d) Transport facility increases the mobility of factors of production i.e. land, labor,capital and organizer.

e) The various activities of agriculture sector are depending on the progress of transportation.

f) Transport facilities are very important for the development of industries in acountry.

g) Transport industry creates employment on large scale in an economy.

h) An efficient transport system promotes the service of public utilities.

Political significance of transport: Transport facility also make the political awareness. We can establish national integration through means of transport. Transportstrengthens the national defense. This facility also helpful for maintaining internal law,order, administration and justice. Transport establishes the political friendship among the various nations in the world. Transport is one of the most important factor whichdetermines the status of an economy at international level.

2) Social and Cultural Significance of Transport: Transportation has a social and cultural significance. We can see its significance by the following ways.

A) Transport creates an advancement in knowledge and culture.

B) It also useful for reducing the regional disparity.

C) Adequate transport facility increases the standard of living of people in country.

D) Transportation helps to reduce conservative and unscientific beliefs of thepeople.

E) Transport facility reduces the disparity of rural and urban people.

F) Transportation is important factor for the development of tourism industry in acountry.

In this way means of transport plays vital role in the progress of human beings anda nation building.

B) Importance of Communication :

Communication is a process by which information is transmitted between individuals and for organization to understand the responsive results. In another words, we can say, communication is an exchange of information ideas and emotion with thehelp of words symbols and message. Newspaper, radio, T.V. mobile internet, websites, post, telegram are the important tools of communication. Now-a-days, the importance of these means of communication is widespread level. The following points clears theimportance of communication.

1) Economic Significance: Communication plays vital role in the economic development of a nation. The well-developed communication system is essential for achieving the millennium development goals. Communication gives us the following economic benefits.

a) Communication promotes the production process by providing inputs and work culture in a society.
b) Communication encourages the consumption of the people by providing newproducts and services through E-Commerce and E-Business.
c) Communication plays vital role in promotion exchange of goods and services with the help of different tools.
d) Different mode of communications informs about the factors of production.
e) The availability of accurate and time-bound information provided by the means of communication, the favourable atmosphere for agricultural development. In this context communication of information about the prices of farm and non-farm products, HYV seeds, manures, fertilizers and pesticides are transformed through radio, T.V. and mobile phones.
f) Communication is a life-line of industrial growth in a developing as well as developed countries in the world. Advanced communication leads to industrial progress of an economy.
g) The most important benefit of communication is of employment generation. The communication services like post-office telephone exchanges, internet facility, call centers, data processing units, GPS and revenue accounting in India have created the millions of job-opportunities.

2) Political Importance of Communication: Communication facility gives support to a nation by democratic way of development. It also stimulates awareness about the progress among the people. Communication sometimes helps to take quickdecisions and implementation of Government policies for different fields. Now-a-days,in India the process of E-Government is very much useful for national integration andinclusive political system.

Social and Cultural importance of Communication: Communication plays a significant role in the building of social and cultural life of people. It strengthens thesocial networking which is helpful for economic development of a country. Communication tools develops modern and western attitude among the traditional society. Thus, with the help of proper use of communication, a country can improve the standard of living of the people of it.

D) Importance of Tourism Industry:

Since thousands of year the word 'Tourism' is an integral part of human life. Tourism is a situation where person migrates from his native place to other place for a short period. Now-a-days tourism industry has a greater importance. India has a great heritageof historical place like the Taj Mahal, various Forts. Varanasi, Nalanda University, the Mahabodhi temple etc. Since 2000, Tourism industry has been giving number of benefits, the number of foreign tourists visited to India which have fetched foreign exchange earring, it is given in the following able. No. 3.3.

Table No. 3.3

"Number of foreign tourist and foreign exchange earnings of India."

Year	Number of foreign Tourist arrivals	Foreign exchange earnings (Rs. In Crores)
2000	26,49,378	15626
2001	25,37,282	15083
2002	23,84,364	15064
2003	27,26,214	20729
2004	34,57,477	27944
2005	39,18,610	33123
2006	44,47,167	39025
2007	50,81,504	44360
2008	52,82,603	51294
2009	51,67,699	54960
2010	57,75,692	64889
2011	62,90,316	77591

Source – Annual Report of Tourism industry 2011-12 Government of India. TableNo. 3.3 reveals the progress of tourism industry in India is from 2000. The number of foreign tourists visited to India and the foreign currency earning collected by the Government of India both found in a progressive way. Since 2001, It seems that tourism industry in India has been developed. Now we will see the importance of tourism industryin India in a following way.

1) Economic significance of tourism industry :

Tourism industry has been developed due to the demand of tourists. This industryprovides various facilities which enhance the income level at individual as well as national level. We can explain the economic benefits of this industry as under.

a) Tourism industry helped to develop the roads, transport, communication services etc.

b) Tourism facility leads to the restaurants facility in a country.

c) Tourism industry is useful for increasing employment opportunities.

d) Tourism industry is important for earring of foreign currency to India.

e) Tourism is an important tool for revenue enhancement.

2) Social and cultural benefits of tourism Industry :

This industry is not only useful for economic development but also it maintains ourheritage and the historical places. It establishes social unity among the people at national and international level. Thus, tourism is useful for the social and cultural developmentof a country.

B Check your progress - 1

Choose correct alternatives given below

1) _________Century is called a century of information technology.

a. 19th b. 20th c. 21st d. 16th

2) Information technology is most useful in India for__________field.

a. industrial b. educational c. agricultural d. cultural

3) _____________Facility is important for production of goods and services.

4) Educational b. Transport c. Mobile d. Posts _____is a tool of communication.

a. Bus b. car c. Mobile Phone d. Truck.

5) The number foreign tourist arrivals are_________in India.

a. Constant b. increasing c. decreasing d. fixed

3.2 Summary:

Service sector plays a vital role in Indian economy. This sector consists of the retail trading, banking services, transportation and insurance facilities provide to the people by private and public agencies. In this particular unit we gathered the informationabout meaning and nature of service sector, the growing importance of service sector,the significance of banks and financial institutions and insurance entity and the importance of IT, transport, communication and tourism industry in India.

A) The service sector consists of soft parts of the economy which are related to knowledge and productivity. According to the U.S. census bureau, the service sectorprimarily consists of truck transportation, messenger services, and warehousing andinformation sector services. Now-a-days the scope of service sector has increased.The composition of service sector in India has been determined by National Industrial classification from 2008 in the forms of different eight fields of an economy. Government of India has divided the composition of service sector into three differenttypes of lists i.e. union list, state list and concurrent list. Thus, all types of servicesrendered by private and public sector have been included in a service sector.

B) The importance of service sector in India is at increasing trend. Since 1957 the growing importance of this sector has been measured with the share of this sector in the GDP and performance of services provided to the society. The various service like trade, transport, finance, storage and insurance has played greater significance in Indian economy from 1991. The share of service sector in GDP of India has increased from 27.5% to 56.9% during the period of 1950-57 to 2009-2010. Thegrowing importance of service sector in India has got different causes i.e. employment generation, expansion of IT, rise in demand of services, increase in foreign reserves etc. India can become superpower in the world by providing services at large scale in future. Banking services, financial institutions and insurance facilities have also played a greater significance in Indian economy. In a planned economy, India has to develop primary, secondary and service sector with the smooth working of banking and financial institutions support. At present, 84604 branches of nationalized banks are providing all kind of finance facilities to all the sectors of economy. The various financial institutions like IBRD, IDBI, LIC, UTI, ICICI are also playing a vital role in the development of Indian economy since 1991. Due to the adequate finance and insurance facilities to the people the process of agriculture and rural developmentis growing at fast level, these facilities have created millions of employment opportunities in a country. Insurance facility has reduced the social and economy.

C) Now-a-days service sectors role in India's economic progress is enhancing. The development in information technology (IT) sector has changed the face of industrialand trade sector. Use of IT tools has become a basic need of banks, insurance,business and education field. The various means of transportation have also played vital role in India's economic development. In addition to this, the growing importance of communication have solved

many problems in the way of economic development. The tools of communications are most important for increasing the productivity of different sector of the economy. Tourism industry is one of the most important service provided in India through private and public sector. This tourism services have provided employment opportunities to lakhs of youth in India. Thus, the service sector in India is growing very fast and it has changed the atmosphereof India's economic development at domestic as well as international level.

3.3 Key words:

1) Service sector: The sector which provides the different types of services to the people i.e. banking, insurance, finance, hoteling, tourism etc.

2) Information Technology: The use of modern tools like computer, internet, mobile phones and websites for the development of primary, secondary and service sector.

3.4 Communication: Communication is an exchange of information, ideas and emotions with the help of word symbols through various tools. Answers to check your progress:

3.2.1	(1) 3	(2) A	(3) B	(4) 15	(5) 3
3.2.2	(1) B	(2) B	(3) C	(4) C	(5) B
3.2.3	(1) C	(2) B	(3) B	(4) B	(5) A
3.2.4	(1) C	(2) B	(3) B	(4) C	(5) B

3.5 Question for practice:

A) Write short notes on –

1) Meaning of service sector.

2) Composition of service sector in India.

3) Growing importance of services sector.

4) Importance of banking services.

5) Importance of Insurance.

6) Significance of transport.

7) Importance of tourism.

B) Essay broad answer type questions.

1) What do you mean by ‘service sector? State the composition of service sector.

2) Explain the nature and growing importance of service sector in India.

3) State the significance of banks and financial institutions in India.

4) What do you mean by information technology? Explain its importance withreference of India.

Explain the importance of communication in India’s economic development.

Foreign Sector in India

4.0 Introduction:

Foreign sector means macro-economic variables found outside of an economy, such as Balance of Payment, Foreign Capital, etc. These variables affect the domestic economy negatively as well as positively. Here, it’s very important to know that how this foreign sector is helping our Indian economy since1991.

4.1 Presentation of Subject Matter:

In this unit we are dealing with importance of foreign sector, volume of foreign trade, composition and direction of foreign trade, Growth and Composition of foreigncapital in India since 1991 and Recent Export Promotion Policy.

4.1.1 Importance of foreign sector :

As we know that foreign sector is largely known as foreign trade, foreign capital, foreign technology and goods. The foreign sector means when a country cannot satisfy it’s needs effectively with the closed economic structure: households, businesses and the government, countries then convert in to an open economy to satisfy their needseffectively. To solve some of the problem, the country have to trade with other countriesto gain from a strong economy, so that it will be able to satisfy the needs of their people. When countries trade, they do not have to rely solely on their own resources but they can export and gain other resources form the different countries. Some countries maynot have good access to their own resources as such they will not be able to use theforeign sector effectively. Therefore, it is very essential to study that how these variables are important to grow Indian economy? This can be answered by observing the importance of foreign sector in India.

4.2.1. Importance of foreign sector :

(a) Acquisition of Capital Goods from Developed Countries :

(b) The under-developed countries (UDCs) are enabled by foreign trade to obtain inexchange for their goods capital equipment and heavy engineering machines to foster their countries' economic development. For example, India exports rice, cotton and cotton textiles, leather and leather goods, and sports goods and in exchange she imports iron and steel, fuel, capital equipment from the developed countries. Import of Technical Know-how or Skills:

An under-developed country (UDC) is short of all kinds of professionals like engineers, architects, doctors, managers, accountants, economists, and other technical personnel. To cover this shortage and to learn more, a UDC can allow the inflow of technical brains from developed countries.

(c) International Market :

The foreign sector can extend the scope of the business to the international market. The domestic market is limited; the foreign sector opens new vistas, new marketing channels and new markets. When the markets are extended, the economies of scaleare reaped; the efficiency and productivity will increase. Accordingly, the forces of development will set themselves in motion.

(d) Foreign Investment :

The foreign sector is also helpful in attracting foreign investment. The foreign investors are attracted towards active trading countries and invest in the form of capital goods and technical expertise. In this way, the assembling plants, the manufacturingplants and the latest technology will come into the country. As our recent investmentagreements with USA, UK, Mauritius and UAE will be helpful in promoting trade and industries in the country.

(e) Source of Public Revenue :

When there are imports and exports of goods and services, the government can earn the good amount of revenue in the form of tariffs, custom duty, import licence fees, etc.

(f) Foreign Exchange Earnings :

Moreover, the external sector also opens the employment opportunities for the country-men in the foreign countries. Hundreds and thousands and Indians are working abroad there remittances are proved to be a major source of foreign exchange earnings.

(g) Import Substitution vs. Export Promotion :

There are two types of economic strategies – import substitution and export promotion, which are helpful in removing the deficit in BOP and accelerating the processof industrialisation and economic development:

(a) Import Substitution :

The import substitution strategy or *'import-led'* or *'inward-looking strategy'* aims at producing the import substitutes in the country. The import substitution (IS) strategywill reduce the dependence of a country on foreign goods. It will enable a country to produce the plants, machinery, electronic goods, consumer durables and a variety ofgoods. In this way, not only the domestic production will increase, but the domestic employment will also be boosted up. This strategy provides self-sufficiency in the economy. But at the same time the country has to rely on heavy foreign loans and assistance in order to complete expensive projects.

The import substitution strategy fosters the process of industrialisation and economic development. It helps in protecting and developing small and medium sized industries. It protects the local manufacturers and labour by protecting them from foreign competitors. The price of rupee had fallen to a greater degree, which led to income disparity and unemployment. Moreover, Government's major focus was on industrial policies and she ignored altogether the development of agriculture sector.

(b) Export Promotion :

Export promotion strategy is also known as *'export-led'* or *'forward-looking strategy'*. Export promotion strategy is aimed at boosting the exports of semi-manufactured and manufactured goods in place of traditional commodities and improving the standard ofexports. Export growth is equivalent to the economic growth. The comparative advantage leads to specialization in a product which enables her to make the product available to the world community at cheaper prices. Thus, the international markets are extended for an exporting country. The income and employment will be generatedat maximum level.

(h) Foreign banks :

Foreign banks are those banks whose branch offices are in India but they are incorporated outside India, and have their head office in a foreign country. These bankswere allowed to set up their subsidiaries in India from the year 2002. They have to operate their business by following all the rules and regulations laid down by the ReserveBank of India. Foreign banks have played an important role in the Indian economy, especially in the priority sectors. Globalization has compelled the banking sector to reach out to more customers in order to expand their business. Many of the private banks were interested in expanding their business all over the world. They opened up branches across the globe to serve large number of customers, and also improve service to the existing customers. This change was a blessing for India. Currently, the foreign banks are growing tremendously in India.

B Check your progress:

Q.1 Choose correct alternatives to the following questions:

1) Export promotion strategy is also known as............... Strategy.

A) export-led B) improved C) import substitution D) money

2) The import substitution strategy or....................aims at producing the import Substitutes in the country.

A) 'inward-looking strategy B) improved

C) Import substitution D) money

3) Foreign exchange earnings is known as............ With an economy.

A) 'inward-looking strategy B) foreign currency

C) Import substitution policy D) money policy

4.2.2 ..... olume, Composition and Direction of India's foreign trade since 1991.

1. Volume of India's foreign trade since 1991:

The volume of foreign trade means the amount of export and import in terms of money value of a country. India's share in the world trade went up from 0.80% in 2002to 2.13% in 2013. Foreign Trade Performance of India can be understood with the helpof following table.

Table no 1

India's Export, Import and Balance of Trade Table 3.1

India's Exports, Imports, and Balance of Trade from 1991-92 to 2012-13

Value in Billion				percentage growth		
Year	Exports	Imports	Balance of Trade	Exports	Imports	Balance of Trade
1991-92	440.42	478.51	-38.09	-	-	-

1992-93	1063.53	1226.78	-163.25	-	-	-
2000-01	2035.71	2308.73	-273.02	27.58	7.26	-50.96
2001-02	2090.18	2452.00	-361.82	2.68	6.21	32.53
2002-03	2551.37	2972.06	-420.69	22.06	21.21	16.27
2003-04	2933.67	3591.08	-657.41	14.98	20.83	56.27
2004-05	3753.40	5010.65	-1257.25	27.94	39.53	91.24
2005-06	4564.18	6604.09	-2039.91	21.60	31.80	62.25
2006-07	5717.79	8405.06	-2687.27	25.28	27.27	31.73
2007-08	6558.64	10123.12	-3564.48	14.71	20.44	32.64
2008-09	8407.55	13744.36	-5336.80	28.19	35.77	49.72
2009-10	8455.34	13637.36	-5182.02	00.57	-0.78	-2.90
2010-11	11429.22	16834.64	-5405.45	35.2	23.4	-
2011-12	14659.59	23454.63	-8795.04	28.3	39.3	-
2012-13	16352.61	26731.13	-10378.82	11.5	14	-

Source: June 15, 2013 EPW& R.B.I.

The global slowdown had its impact on the economy of almost all the countries,including India. In 1991 volume of export and import in India was very much less, butsoon after that had been started to rise. The trade deficit in 2008-09 was much more (49.72 %) compare to the previous two years. As such India's trade deficit stood at Rs.

5336.80 crores during 2008-09 with values of exports and imports at Rs. 8407.55 crores and Rs. 13744.36 crores respectively. However, as may be seen from above table that the position was better in 2009-10 as the trade deficit had decreased (2.90 %) compareto last year. This happened due to the negative growth of import during 2009-10 (– 0.78 %). The trade deficit in 2009-10 was Rs. 5182.02 crores with values of exports and imports as Rs. 8455.34 crores and Rs. 13637.36 crores respectively. Again in 2011-12 trade deficit was rose by 60% and in year 2012-13 it was 85%. All these fact tells us that our country is seriously suffering from trade deficit.

B. Composition of India's foreign trade since 1991:

The composition of foreign trade indicates the items or pattern of export and import of country for a period of time, say for a year. The composition of foreign trade isplaying great role in the structural changes of an economy. Accordingly, it is necessary to us to see that how the composition of foreign of trade is playing a great role in the structural changes of Indian economy. Now the structure or composition of foreign trade of India can be studied by following way.

I) Composition of India's Imports :

Generally, imports are classified in to bulk and non-bulk imports. Bulk imports are further subdivided into form of Petroleum, crude and product, cereals and pulses, edible oils and sugar, fertilizer, metals and metallic ores.

Non-bulk imports comprises of capital goods, precious products, plastic and chemical products. The trends of composition of Indians imports can be exhibited in the following table.

Table No. 3.2

Import of Principal Commodities Groups (in Rs. Crores)

	Commodity	1991	Apr-Apr 2000	Apr-Apr 2001	Apr-Apr 2012	Apr-Apr 2013(P)
A)	Bulk Imports	19464	7,674.98	7,470.87	94,192.72	102,607.23
B)	PEARLS, PRECIOUS & SEMI-PRECIOUS STONES	3738	2,650.84	1,391.37	11,009.55	8,817.13
C)	MACHINERY	3768	1,275.58	1,487.41	19,644.05	18,708.22
D)	PROJECT GOODS	-	85.37	146.29	3,965.04	2,187.40
E)	OTHERS	-	7,517.60	8,657.09	67,074.51	95,749.36
	Total	43193	19,204.37	19,153.03	195,888.54	228,088.65

Data Source: DGCIS, Kolkata

There have been some significant improvement in India's import compositional changes in India's import basket in recent years. The share of POL imports increasedfrom 28.7 per cent in 2010-11 to 31.7 per cent in 2011-12 (with a very high growth rate)and 34.6 per cent in 2012-13 (April-November). The share of gold and silver importsincreased from 9.3 per cent in 2000-1 to 12.6 per cent in 2011-12 with a high import growth rate of 44.5 per cent. However, in part due to policy measures like raising import duty on gold, there was a moderation in gold and silver imports in 2012-13 (April- November) with its share falling to 10.5 per cent following a

negative growth of - 20.4 per cent. The import share of pearls, precious and semiprecious stones also fell sharply in 2011-12 to 6.1 per cent following a negative growth of -13.3 per cent and further to
4.1 per cent in 2012-13 (April- November), with a high negative growth rate of - 32.3 per cent. Another important development is related to the share of capital goods importswhich increased from 10.5 per cent in 2000-1 to 13.6 per cent in 2010- 11 and further to
14.1 per cent in 2011-12, declining thereafter to 11.9 per cent in 2012-13 (April-November)following a negative growth rate of - 6.5 per cent. Among capital goods, the import shares of all items machinery except electrical and machine tools, transport equipment, project goods, and electrical machinery fell, clearly signaling a slowdown in industrialactivity. The share of electronic goods, which includes both consumer electronics and capital goods, also fell in 2012-13 (April-November).

Presently, the share of Petroleum import is about 35%, hi-tech capital good is about 18% and gold import about 11.5%

II) Composition of India's Exports :

The compositional in India's export basket have been taking place over the years.It has been noticed that there is a gradual shift in India's manufacturing exports from
labour intensive sectors to capital incentive sectors. The share of primary products in India's export fell from 15.90% inFY2000-01 to 14.20 in FY 2012-13. About 60% earningsare generated from four commodity groups, vie, garment gems, and jewelry, engineering goods, and petroleum product

Table No. 3

Export of Principal Commodities, (Rs. Crores)

	Commodity	2001	2002	Apr-Apr 2011	Apr-Apr 2012
A)	PLANTATION	221.43	240.94	572.37	644.45
B)	AGRI & ALLIED PRDTS	1,462.92	1,648.36	7,495.90	14,395.23
C)	MARINE PRODUCTS	411.64	361.85	767.85	1,087.97
D)	ORES & MINERALS	464.92	635.72	2,974.04	3,390.46
E)	LEATHER & MNFRS	604.13	668.83	1,425.30	1,724.66
F)	GEMS & JEWELLERY	1,875.05	3,063.29	15,379.21	14,343.49
G)	SPORTS GOODS	24.94	27.64	59.83	80.65
H)	CHEMICALS & RELATED	2,383.70	3,093.08	12,091.39	16,523.68

	PRODUCTS				
I)	ENGINEERING GOODS	1,979.74	2,760.96	20,629.40	25,872.26
J)	ELECTRONIC GOODS	492.89	524.35	2,753.93	3,286.20
K)	PROJECT GOODS	3.05	125.67	21.48	238.25
L)	TEXTILES	3,360.73	4,299.63	10,117.40	10,949.55
M)	HANDICRAFTS	121.45	253.00	138.34	120.56
N)	CARPETS	117.80	270.87	276.76	394.95
O)	COTTON RAW INCL WASTE	3.54	4.70	4.17	2,477.41
P)	PETROLEUM PRODUCTS	617.34	997.35	22,721.29	24,314.31
Q)	UNCLASSIFIED EXPORTS	427.57	564.99	6,705.60	3,411.43
	Total	14,572.84	19,541.22	104,134.28	123,255.51

Source: RBI

The export of India are broadly classified into four categories i.e. Agriculture, minerals,machines and fuels. On the basis of above table no. 3 in 2012 export of engineering goods stood at Ist rank i.e. it has increased at maximum level and Petroleum productstood at second rank compare to textiles, chemical Agriculture product export , even we are exporting more of chemical related products.

3. Direction of India's foreign trade since 1991:

The direction of foreign trade means a nation's countrywide or region wise trade.Globally, there are about 230 countries trading partner of India, out of them 60% of tradevolume (in$) is with 23 countries. Out of these 23 countries , India depends on only four countries, viz, UAE, China, US, and Saudi Arabia, With these India has more than 51% of trade. At this junction we have to see that Indian trade with the other countries of the world. This can be depicted in the following table.

Table No: 4

Export by Region wise Values in Rs. Crores (P) Provisional

Region	Apr-Apr	Apr-Apr	Apr-Apr	Apr-Apr

	2000	2001	2012	2013(P)
1) Europe	4,077.81	3,770.94	23,305.19	23,474.14
1.1 EU Countries	3,759.58	3,484.67	20,855.19	21,155.83
1.2 European Free Trade	177.13	207.72	684.63	882.90
Association (EFTA)				
1.3 Other European Countries	141.10	78.55	1,765.37	1,435.40
2) Africa	817.99	950.28	11,084.67	13,118.40
2.1 Southern African Customs	114.84	93.52	1,605.24	2,251.31
Union (SACU)				
2.2 Other South African Countries	21.19	31.83	519.35	1,237.36
2.3 West Africa	295.73	315.76	2,414.07	2,661.66
2.4 Central Africa	26.82	34.98	303.93	450.96
2.5 East Africa	184.67	277.11	2,995.98	4,301.96
2.6 North Africa	174.73	197.08	3,246.11	2,215.17
3) America	3,616.63	3,314.13	23,011.56	23,578.72
3.1 North America	3,401.63	2,993.74	17,219.83	18,502.81
3.2 Latin America	214.99	320.39	5,791.73	5,075.92
4) Asia	5,544.90	5,691.08	62,309.73	64,029.34
4.1 East Asia (Oceania)	153.90	157.03	978.69	977.10
4.2 ASEAN	875.47	1,161.50	15,329.21	13,750.68
4.3 West Asia- GCC	1,340.77	1,335.75	19,740.45	21,665.78
4.4 Other West Asia	373.59	464.62	4,173.70	5,538.99
4.5 NE Asia	2,228.80	1,913.39	15,691.69	16,390.20
4.6 South Asia	572.36	658.79	6,395.98	5,706.59
5) CIS & Baltics	373.30	238.82	1,379.76	1,427.24
5.1 CARs Countries	14.58	13.08	199.75	204.79

5.2 Other CIS Countries	358.73	225.74	1,180.01	1,222.45
6) Unspecified Region	13.53	607.58	2,164.59	2,982.41
Total	14,444.15	14,572.84	123,255.50	128,610.25

Data Source: DGCIS, Kolkata.

The above table no.4 depict that Indian export region wise Asia i.e. West Asia is atmaximum level. Thus, figures in the above table tell us that from 2000 to 2012 the direction of our economy's trade has changed from America to Asia.

Region	Apr-Apr 2000	Apr-Apr 2001	Apr-Apr 2012	Apr-Apr 2013(P)
1) Europe	6,130.35	5,571.40	34,656.54	47,165.58
1.1 EU Countries	4,726.49	3,707.38	24,140.14	22,729.46
1.2 European Free Trade	1,393.89	1,830.60	10,030.26	24,079.76
Association (EFTA)				
1.3 Other European Countries	9.97	33.42	486.14	356.36
2) Africa	1,000.80	923.50	16,853.57	18,248.98
2.1 Southern African Customs	617.17	583.01	2,339.49	4,939.16
Union (SACU)				
2.2 Other South African Countries	9.36	9.94	2,676.66	3,047.07
2.3 West Africa	166.64	172.68	9,195.69	7,480.31
2.4 Central Africa	3.95	2.77	81.83	19.17
2.5 East Africa	30.94	43.09	263.59	628.07
2.6 North Africa	172.75	112.01	2,296.31	2,135.20
3) America	1,291.83	1,329.20	17,530.47	25,191.03
3.1 North America	1,101.17	1,150.92	10,226.04	12,860.58

3.2 Latin America	190.66	178.27	7,304.43	12,330.45
4) Asia	4,844.56	5,501.37	123,149.15	131,768.24
4.1 East Asia (Oceania)	435.85	379.24	4,324.76	6,218.59
4.2 ASEAN	1,505.58	1,548.12	16,490.04	20,754.93
4.3 West Asia- GCC	472.22	907.41	46,110.64	52,061.13
4.4 Other West Asia	375.08	310.38	17,597.22	14,588.28
4.5 NE Asia	1,913.49	2,161.98	37,396.93	37,296.52
4.6 South Asia	142.34	194.24	1,229.56	848.79
5) CIS & Baltics	284.27	225.87	3,301.97	3,114.51
5.1 CARs Countries	18.42	6.79	52.70	54.94
5.2 Other CIS Countries	265.85	219.09	3,249.27	3,059.57
6) Unspecified Region	5,652.56	5,601.69	396.83	2,600.30
Total	19,204.36	19,153.03	195,888.53	228,088.64

Data Source: DGCIS, Kolkata

The above table no.5 indicates about the imports from various nations. During from 2000 to 2012 periods our imports were primarily from Asian countries, then rest of the imports comes from America and European countries.

4.2.2. Check your progress :

Q.1 Choose correct alternatives to the following questions.

1. Our imports were primarily from.......... countries.

   a) Asian b) America c) Africa d) Europe

2) India stood First in export of.............. n 2012

   a) valuable goods b) engineering goods

   c) Perishable goods d) soluble goods

3) The 60 percent of our trade takes place with..............countries.

a) 23 b) 23 c) 18 d) 16

4) Nearly .... percent of trade of India's trade with UAE, China, USA and Saudi Arabia.

a) 23 b) 51 c) 38 d) 46

5) Foreign Trade is .... of economic growth.

a) engine b) force c) drive d)not

4.2 3. Growth and Composition of foreign capital in India since 1991

B Introduction:

Foreign capital means investment in the productive activities of a country by a foreign government, by private foreign investors and international institutions like World Bank, International Monetary Fund (IMF) etc.

B Types of foreign capital:

Basically, foreign capital may be classified as below.

1. Private foreign capital
2. Public foreign capital

1. Private foreign capital: The private foreign capital means it is which received from private sources; it may be from following way.

1. Direct foreign capital
2. Indirect foreign capital

1. Direct foreign capital: means foreign companies can invest in our country and can have their own ownership, management, etc. this kind of FDI is in almost all sectors in India. Recently, FDI has been allowed in retail sector.

2. Indirect foreign capital: Here, indirect foreign capital is nothing but portfolio investment. The investment through shares and debenture is also the example of indirect foreign investment.

(A) Foreign Investment Inflows :

Since 1991 there has been acceleration in the flow of foreign capital in India. As aresponse to the policies of liberalization foreign investors were very keen to direct investment. Nowadays FDI has been discussed very hotly. It has become a serious discussion on the part of policy makers in general and academician in particular. Almostall sectors have been kept open to have more FDI inflows in India. Recently, retail sector has been also made open for FDI inflows. The degree of our openness and theFDI inflows can be seen with the help of following tables no 5. In case of Direct Investment,it has increased from $ 4029 million in2000-01 to $ 27024 million in2010-11.

Table 5: Foreign Investment Inflows

Year	Gross inflows/ investment US$ Million	Repatriation/ Disinvestment India US$ Million	Direct Investment to India US$ Million	FDI by India US$ Million	Net FDI US$ Million	Net Portfolio Investment US$ Million	Total US$ Million
2000-01	4090	0	4029	759	3270	2590	5860
2001-02	6130	5	6125	1391	4734	1952	6686
2002-03	5035	59	4976	1819	3157	944	4101
2003-04	4322	0	4322	1934	2388	11377	13765
2004-05	6051	65	5986	2274	3712	9291	13003
2005-06	8961	61	8900	5867	3033	12492	15525
2006-07	22826	87	22739	15046	7694	6947	14640
2007-08	34843	116	34727	18836	15891	27434	43325
2008-09	41873	166	41707	19364	22343	-14032	8311
2009-10	37745	4637	37763	15143	17965	32396	50361
2010-11	34847	7018	27024	16524	11305	30292	41597
2011-12	46553	13598	(P)32955	10950	22006	17171	39177

Note: 1. Data for 2009-10, 2010-11 and 2011-12 are provisional.

2. Data from 1995-96 onwards include acquisition of shares of Indian companies by non-residents under Section 6 of FEMA, 1999. Data on such acquisitions are included as part of FDI since January 1996.

3. Data on FDI have been revised since 2000-01 with expanded coverage to approach international best practices.

4. Negative (-) sign indicates outflow.

Direct Investment data for 2006-07 include swap of shares of 3.1 billion.

The above table reveals that since 1991 FDI inflow had been increasing but from 2008-09 has been started declining, which is a serious problem in India. It is anhour of need to sort out this problem.

(B) Country-Wise and Industry-Wise FDI Inflows :

One more aspect has to be observed, viz, the country-wise and industry-wise FDIinflows in India in the following table.

TABLE 6

FOREIGN DIRECT INVESTMENT FLOWS TO INDIA: COUNTRY-WISE AND INDUSTRY-WISE

(US $ million)

Source/Industry	2007-08	2008-09	2009-10 P	2010-11 P	2011-12 P
1	2	3	4	5	6
Total FDI	19,425	22,697	22,461	14,939	23,473
Country-wise Inflows					
Mauritius	9,518	10,165	9,801	5,616	8,142
Singapore	2,827	3,360	2,218	1,540	3,306
U.S.A	950	1,236	2,212	1,071	994
Cyprus	570	1,211	1,623	571	1568
Japan	457	266	971	1,256	2,089

Netherlands	601	682	804	1,417	1,289
United Kingdom	508	690	643	538	2760
Germany	486	611	602	163	368
UAE	226	234	373	188	346
France	136	437	283	486	589
Switzerland	192	135	96	133	211
Hong Kong SAR	106	155	137	209	262
Spain	48	363	125	183	251
South Korea	86	95	159	136	226
Luxembourg	15	23	40	248	89
Others	2,699	3,034	2,374	1,184	983
Sector-wise Inflows					
Manufacture	3,726	4,777	5,143	4,793	9,337
Construction	2,551	2,237	3,516	1,599	2,634
Financial Services	3,850	4,430	2,206	1,353	2,603
Real Estate Activities	1,336	1,886	2,191	444	340
Communication Services	66	2,067	1,852	1,228	1,458
Business Services	1,158	643	1,554	569	1590
Miscellaneous Services	1,901	1,458	888	509	801
Computer Services	1,035	1,647	866	843	736
Restaurants & Hotels	280	343	671	218	870
Retail & Wholesale Trade	200	294	536	391	567
Mining	461	105	268	592	204
Transport	816	401	220	344	410
Trading	176	400	198	156	6
Education, Research &	156	243	91	56	
Development					
Others	884	1,097	384	506	419

P: Provisional

Others 8841,097384506419

Note: Includes FDI through SIA/FIPB and RBI routes only.

Source: RBI

In table no. 6 the trend of Foreign Capital in India indicates that Mauritius is contributing at maximum level in the pool of FDI inflows in India out of ten top countries.If we observe sector-wise FDI in India, it reveals that the manufacture sector has contributed more than any other sector i.e. $ 4,777 in 2008-09. In brief, we may conclude that foreign investment can be a minor contributor and not the main driver ofindustrialization in India.

(C) Impact of FDI on Indian Economy :

A) FDI Share in India's GDP :

The following table No. 7 shows the FDI's share in India's GDP. Here, it indicatesthat the FDI's share in India's GDP was 0.45 percent in2004-05, which went up to2.55percentage in 2008-09. Then afterwards it has started to decline.

Table No. - 7

FDI share in India's GDP (Rs. crores)

Year	GDP	FDI	%FDI to GDP
2004-05	3,242,209	14,653	0.45
2005-06	3,695,485	24,584	0.66
2006-07	4,293,475	56,390	1.33
2007-08	4,986,426	98,642	1.97
2008-09	5,582,623	142,120	2.55
2009-10	6,550,271	123,120	1.87
2010-11	7,875,627	88,520	1.23

B) Sectors Attracting FDI Approvals in India :

Table No : 8

STATEMENT ON SECTOR-WISE FDI INFLOWS FROMAPRIL 2000 FEBRUARY 2012

SN.	SECTOR	Amount of FDI inflows		%of FDI Share in total.
		(in Rupees)	(in US$ Millions)	
1	SERVICES SECTOR	144972.77	32193.42	19.85
2	TELECOMMUNICATIONS	57068.50	12550.31	7.74
3	CONSTRUCTION ACTIVITIES	5 0867.24	11157.48	6.88
4	COMPUTER SOFTWARE &	49838.01	11149.53	6.87
	HARDWARE			
5	HOUSING & REAL ESTATE			
	(INCLUDING CINEPLEX,MULTIPLEX,			
	INTEGRATED TOWNSHIPS &			
	COMMERCIAL COMPLEXES ETC.)	49600.49	11089.80	6.84
6	DRUGS&PHARMACEUTICALS	42761.31	9172.50	5.66
7	POWER	33.30.20	7262.01	4.48
8	AUTOMOBILE INDUSTRY	30129.26	6627.77	4.09
9	METALLURGICAL INDUSTRIES	26830.04	6019.77	3.71
10	PETROLIUM& NATURALGAS	14611.84	3303.15	2.06
11	Other			31.82
	Total	733,707.42	162,184.66	100

Source: RBI

It is the Service sector which has received maximum FDI flow i.e. 19.85 percent to the total FDI inflow. The table -3 depicts that top 10 sectors have received nearly 78 Percent of Total FDI inflow in the last 12 years. Nowadays, government has allowed FDIentry 49percen in insurance sector which is very much required in the current scenario.

C) FDI Inflows Country wise :

It also indicates that Mauritius country has been toped in the sharing of FDI in India from

2000 to 2012 .This shows that Mauritius country has got many concessions regarding taxes. Because of this, FDI inflows is maximum/highest from Mauritius i.e. 39.25percen and a very least from U.A.E. 1.37 percent during 2000-2012. The FDI inflows from Singapore is of 10.46 percent during the above said period.

D) Foreign Exchange Reserve :

The following table highlights the extent of foreign exchange reserves in India.

Table No. 5

Foreign Exchange Reserves in India and FDI

Sr. No.	Year	Foreign Exchange Reserve in India		FDI Million US$	% FDI in total Foreign Exchange Reserves.
		Rs in Crores	Million in$		
1	1990-91	4388	2236	103	4.60
2	2000-01	184482	39554	6130	15.49
3	2011-12	1330500	260060	32901	12.65

Source: RBI

The foreign exchange resources are to the extent of US$ 2236 Million as on 1990-91, which has increased to US$ 39554 Million and US$ 260060 Million in 2000-01 and2011-12 respectively. During the corresponding years the ratio of FDI to the total foreign exchange reserves has been increased from 4.60 percent to 15.46 percent, butin 2011-12 it has declined to 12.65 percent.

E) Inflation Rate :

The average inflation rate can be observed with the help of following table- 6 Table No. 6

Years	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Inflation Rate (%)	4.4	6.6	4.7	8.1	3.8	9.6	8.6

Source as Above

The average inflation rate was 10.3percent in 1990-91 and it was declined by 4.4percent in 2002-03. But it was increased by 8.6 percent in 2011-12.

(D) Merits of FDI in India :

1) Global Market :

Incoming FDI has created global market to Indian products. Our goods and services are demanded globally in large extent due to FDI.

2) Global Competitiveness :

In earlier days our industrial sector was not facing any competition as a result of this efficiency were not up to the mark. But, due to globalization, competitiveness among industrial sector would be enhanced.

3) Reduction in cost in R & D :

Entry of FDI in India is able to reduce the cost in R &D, which is very much necessaryfor our economy to where higher level of economic development.

4) Employment opportunity :

FDI will help to generate employment opportunity in India. In some extent it has been achieved. Recently, government has announced the FDI in retail marketing owingto employment generation to the youth of our country.

5) Access Of Natural Resources :

6) It is the matter of fact that we are rich by natural resources but inherently poor toexploit it, the reason is obviously low capital. Here, FDI is the only whip which can help us to access ours natural recourses. New Technology :

The new technology is an essential condition to compete at internationally. Withthe entry of FDI in India, it will bring latest technology.

7) Regional Development :

Regional imbalances are big obstacle in the development of our economy. The foreign capital is a good solution to morbid of Regional imbalances.

8) Incentive to Domestic Producer :

The domestic producer is going to benefit more with entry of FDI in India.

9) Govt. get Greater say at International Summit :

Government has to meet various international summits. Whenever we want to putsome policy at international level we may get support if we follow the global rules.

(E) Demerit of FDI :

1. Cultural Change :

According to some scholars our cultural heritage could be disturbed if we follow blindly international orders one of them it FDI.

2. Inflation may increase slightly :

Recently, FDI has been allowed in retail marketing, air and pharmaceutical industry,the inflation rate has declined by more than two digits in case of consumer goods.

3. Domestic firms may suffer if they are relatively uncompetitive :

It is true that the even though FDI has been attracted in the various areas the success of domestic firms may suffer badly if they are relatively uncompetitive.

4. Too much dependency will increase :

As per the well-known fact that' Too much is always too bad', more dependencyon foreign capital may invite serious repercussions on our economy.

(F) Detrimental Factors of FDI in India :

a) Aykut and Ratha (2003) have broadly categorized the determinants of FDI in todemand side pull factors and supply side push factors in the Asian developing countries. Defective Policy :

Most of the areas are covered by FDI in India. However, the policy of FDI has not much liberalized as it is in China. Many investors are investing to export but they takeadvantage of our domestic market. In case of tariff policy, though duties have been reduced but still in the context of protection, tariffs are very high. China has more business oriented and more FDI friendly policies than India (AT Kearney-2001). In case of approvals, China's procedural clearances for setting up units are easy and quick.

b) Infrastructure :

Inadequate infrastructural facilities are not only constraints on FDI inflows, but also constraints for the economic development and economic growth. It is necessaryto have more infrastructure facilities, which will surely help to boost the FDI inflows inIndia.

c) Labour Laws :

Rigid labour laws are impediment not only for economic development but also to attract FDI. In China wages are paid on productivity basis and companies can followthe "hire and fire" policy. In our country, labour community is protected at larger scale.

d) High Fiscal Deficit :

No doubt that Fiscal Responsibility and Budget Management Act (FRBM) has beenpassed in India, as well as almost all states in India, but we are unable to control fiscaldeficit less than 3%. As a result of this, the FDI inflows are not up to the mark.

India has received lots of benefits through FDI, but still we are far away from the vision of China's FDI inflows. If we want to achieve top rank in FDI flows, then it is necessarythat our government has to have the friendly FDI policy, better infrastructures, and reforms in labor laws, lower level of fiscal deficit and higher purchasing power in India.

B Check in progress:

1) The share of FDI in 2009-10 year was.......... percent to the GDP of India.

a) 1.87 b) 1.88 c) 2.33 d) 6.12

2) In the year ....the contribution of FDI was 2.55 to the GDP.

a) 2012-13 b) 2008-09 c)2010-11 d) 2009-10

3) By and large country wise FDI inflow in India is maximum from………….

a) USA b) Iran c) Mauritius d) China

4) The sector wise FDI inflow in India is largely in the....... sector.

a) service b) manufacturing c) retail d) defense

4.2.4. Recent Export Promotion Policy :

1. Introduction :

The Export Promotion Schemes can be categorized as,-

(i) Duty exemption scheme which permit duty free import of inputs required for export production viz.Advance Authorisation and Duty Free import Authorisation (DFIA).

(ii) Duty remission scheme which enable post-export replenishment of / remission of duty paid on inputs viz.Duty Entitlement Pass Book Scheme.

(iii) Reward schemes which entitle exporters to duty credit scrips subject to various specific conditions like Served from India Scheme (SFIS), Vishesh Krishi Gram Udyog Yojana (VKGUY), Focus Market Scheme (FMS), Focus Product Scheme (FPS) and Status Holder Incentive Scheme.

(iv) Export Promotion Capital Goods (EPCG) Scheme which permits an exporterto import Capital Goods at concessional / Nil duty against an export obligation to be fulfilled in specified time.

2. Advance Authorisation Scheme :

The Advance Authorisations are issued to allow duty free import of inputs, which are physically incorporated in the export product (after making normal allowance for wastage). In addition, fuel, oil, energy catalysts, etc., which are consumed in the courseof their use to obtain the export product are also allowed under the scheme.

3. Duty Free Import Authorization (DFIA) :

3.1 The Duty Free Import Authorization (DFIA) scheme introduced in 2006 is similarto Advance Authorization scheme in most aspects except with a minimum value additionrequirement of 20%. Once export obligation is completed, transferability of authorization/ material imported against the authorization is permitted. However, once the transferabilityhas been endorsed, the inputs can be imported/domestically sourced only on paymentof Additional Customs duty/Central Excise duty. The DFIA Authorizations are issued only for products for which SION have been notified.

4 Reward Scheme – Served From India Scheme:

Served from India Scheme (SFIS) incentivizes exports of specified goods/exportsto certain countries. The objective of SFIS is to “accelerate growth in export of services so as to create a powerful and unique ‘Served from India’ brand, instantly recognizedand respected world over.” SFIS is operationalized.

5. Reward scheme – Vishesh Krishi and Gram Uduog Yojana (VKGUY) or Special Agriculture and Village Industry scheme :

The objective of VKGUY is to promote exports of specified agricultural products, and Gram Udyog products, forest based products.

6. Reward scheme - Focus Market Scheme (FMS) :

The objective of this scheme is to offset high freight cost and other externalities to select international markets with a view to enhance India’s export competitiveness.

7. Reward scheme - Focus Product Scheme (FPS) :

The objective of this scheme is to incentivize export.

8. Reward scheme - Market Linked Focus Products Scrip (MLFPS) :

The export of products/sectors of high export intensity/employment potential (which are not covered under present Focus Product Scheme List) are incentivized at 2% of FOB value of exports in free foreign exchange under Focus Product Scheme when exported to the Linked Markets (countries), which are not covered in the present FMSlist.

9. Reward scheme - Status Holders Incentive Scrip (SHIS) :

The Status Holders of specified sectors are provided with an extra scrip called theSHIS @ 1% of the of FOB value of exports of these sectors made during 2009-10, 2010-11 and 2011-12 and 2012-13. The objective of the scheme is to promote investment in up gradation of technology of some specified sectors.

10. Expired/abolished Export Promotion Schemes whose Scrips / Certificatesare still in use :

10.1 There are some Export Promotion Schemes that have expired and no longer in vogue, but imports against scrip's issued to beneficiaries of these schemes are continuing and hence their monitoring becomes important:

(i) Duty Free Credit Entitlement (DFCE) Scheme :

This scheme for status holders was announced on 31-3-2003 whereby the status holders having incremental growth of more than 25% in FOB value of exports subject to a minimum export turnover of Rs.25 crores, were entitled to duty credit at 10% of the incremental growth in exports.

(ii) Target Plus Scheme (TPS) :

This scheme was introduced for the Star Export Houses w.e.f. 1-9-2004 whereby the exporters were entitled to rewards in the form of duty free credit based on incremental export performance.

(iii) Duty Free Replenishment Certificate (DFRC) scheme :

This scheme permitted duty free import (exemption from only Basic Customs duty) of inputs which were used in the manufacture of export product on post-export basis as replenishment.

(iv) Duty Entitlement Pass Book (DEPB) scheme :

11. Special provisions :

The following exports categories /sectors are ineligible for Duty Credit Scrip entitlement under VKGUY, FMS, FPS (including MLFPS) and Status Holders Incentive Scrip schemes:

(a) EOUs / EHTPs / BTPs who are availing direct tax benefits / exemption;

(c) Exports through transshipment, meaning thereby that exports originating in third country but transshipped through India; Deemed Exports;

(d) Exports made by SEZ units or SEZ products exported through DTA units.

12. Export Promotion Capital Goods (EPCG) scheme :

12.1 Under EPCG scheme, import of capital goods which are required for the manufacture of resultant export product specified in the EPCG Authorization is permitted at nil/ concessional rate of Customs duty.

13. General provisions of Export Promotion Schemes:

Imports and exports under the Export Promotion schemes are restricted to limited ports, airports, ICDs and LCSs, as specified in the respective Customs duty exemption

B Check your progress.

Q.1 Choose correct alternative given below and rewrite the sentence.

1) The Duty Free Import Authorization (DFIA) scheme introduced in year………..

a) 2005 b) 2009 c) 2004 d) 2006

2) Duty Free Credit Entitlement (DFCE) Scheme, This scheme for status holders was announced on 31-3-2003

a) 02-032005 b)31-3-2003 c) 31-02-2004 d)15-06-2006

3) Export Promotion Capital Goods (EPCG) Scheme which permits an exporterto import Capital Goods at.........................duty rate.

a) 34% b) 45% c) concessional / Nil d) 50%

4) Target Plus Scheme (TPS), This scheme was introduced for the Star Export Houses w.e.f.…………...

a) 5-4-2005 b) 3-22009 c) 2-9-2004 d) 1-9-2004

4.3 Summary:

The external sector is to be developed in large extent otherwise there will be inimical on economic growth of our country. The foreign trade is an engine of economic growth.Recently, in our country rupee has fallen against dollar, which directs us that our trade deficit must be minimized by enhancing export of lour country.

India has received lots of benefits through FDI, but still we are far away from theChina's FDI inflows. If we want to achieve top rank in FDI flows, then it is necessary that our government has to have the friendly FDI policy, better infrastructures, and reforms in labor laws, lower level of fiscal deficit and higher purchasing power in India. Export policy has enhanced recently to push up our export.

4.4 Terms of Remember

B FDI = Foreign Direct Investment

B SEZ = Special Economic Zone

B Forward-Looking Strategy =. Export promotion

B POL - Petroleum Oil Lubricant

4.5 Answer to check your progress :

4.2.1 Answer to check your progress

1) =A) export-led 2)= A) 'inward-looking strategy 3)= B) foreign currency

4.2.2 Answer to check your progress

1)= a) Asian 2)= a) valuable goods 3)= b) 23 4) =b) 51 5)= a) engine

4.2.3 Answer to check your progress

1) = a) 1.87 2)= b) 2008-09 3)= c) Mauritius 4)= b)manufacturing

4.2.4 Answer to check your progress

1) = d) 2006 2)= b)31-3-2003 3)= c) concessional / Nil 4)= d) 1-9-2004

4.6 Exercise :

1. Explain the importance of external sector.
2. Explain the volume foreign trade in India since 1991.
3. Explain the composition foreign trade in India since 199
4. Explain the direction foreign trade in India since 1991. Explain the growth and composition foreign capital in India since 1991.
5. Explain the merits and demerits of foreign direct investment in India since1991.
6. Explain the recent foreign trade policy in India.