INDIAN ECONOMY
GROUP 4

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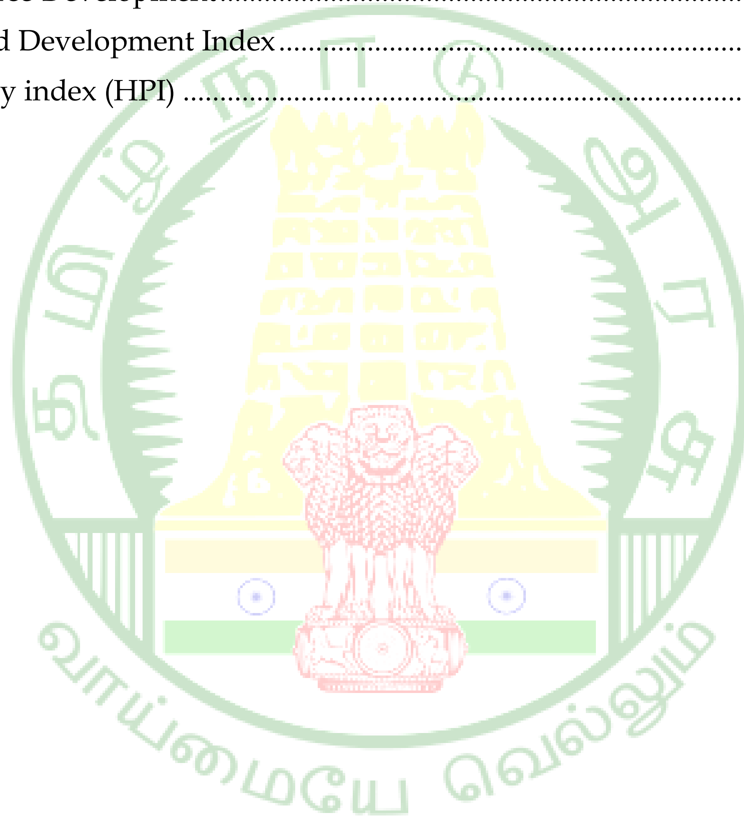

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1. Nature and Scope of Economics

Definitions of Economics

We can have a good idea about the nature and scope of economics by studying some of the important definitions of economics. Some of the important definitions of economics are those of leading economists like Adam Smith, Alfred Marshall, Lionel Robbins and Samuelson.

Adam Smith's Definition (Wealth Definition)

Adam Smith (1723-90) defined economics as follows : "*Economics is the science of wealth*". He is the author of the famous book "*Wealth of Nations*" (1776). He is known as the Father of PoliticalEconomy because he was the first person who put all the economic ideas in a systematic way. It isonly after Adam Smith, we study economics as a systematic science. The term "wealth" has a special meaning in Economics. In the ordinary language, by "wealth", we mean money, but in economics, wealth refers to those goods which satisfy human wants. But we should remember allgoods which satisfy human wants are not wealth. For example, air and sunlight are essential for us. We cannot live without them. But they are not regarded as wealth because they are available inabundance and unlimited in supply. We consider only those goods which are relatively scarce andhave money value as wealth. We study about consumption, production, exchange and distributionof wealth. J.S. Mill defined economics as "the practical science of the production and distributionof wealth". Adam smith was of the view that economics was concerned with the problems arisingfrom wealth-getting and wealth-using activities of people. He was interested mainly in studying the ways by which the wealth of all nations could be increased.

Alfred Marshall's Definition (Welfare Definition)

Alfred Marshall (1842-1924) wrote a book *Principles of Economics* in 1890. In it, he defined economics as *"a study of mankind in the ordinary business of life"*. An altered form of this definition is : *"Economics is a study of man"s actions in the ordinary business of life"*. Marshall agrees that economics studies about wealth. But he does not accept the view that economics studies about wealth alone. In the words of Marshall, "Economics is on the one side a study ofwealth, and on the other and more important side, a part of the study of man. Man is the centreof his study. According to him, the study of man is more important than the study of wealth. Ineconomics, we do not study about all aspects of humankind. As Cairncross

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puts it, economics studies about man as "buyer and seller, producer and consumer, saver and investor, employer and worker".It studies about how people get their income, how they use it and how they make best use of theirresources. Economics studies how people try "to increase the material means of well-being". According to this definition, we may say that economics is the study of the causes of material welfare. Marshall"s definition is known as material welfare definition of economics because of itsemphasis on welfare.

Main Divisions of Economics

There are four main divisions of economics. They are consumption, production, exchange and distribution. In modern times, economists add one more division and that is public finance. In public finance, we study about the economics of government. The economic functions of the modern State have increased to a great extent. So public finance has become an important branch of economics. All the above divisions are interrelated. And they are dependent on each other.

Consumption

Consumption deals with the satisfaction of human wants. There is economic activity in the world because there are wants. When a want is satisfied, the process is known as consumption. Generally, in plain language, when we use the term "consumption", what we mean is usage. But in economics,it has a special meaning. We can speak of the consumption of the services of a lawyer, just as we speak of the consumption of food. In the sub-division dealing with consumption, we study about the nature of wants, the classification of wants and some of the laws dealing with consumption such as the law of diminishing marginal utility, Engel"s law of family expenditure and the law of demand.

Production

Production refers to the creation of wealth. Strictly speaking, it refers to the creation of utilities. And utility refers to the ability of a good to satisfy a want. There are three kinds of utility. They are form utility, place utility and time utility. Production refers to all activities which are undertaken to produce goods which satisfy human wants. Land, labour, capital and organizationare the four factors of production. In the subdivision dealing with production, we study about the laws which govern the factors of production. They include Malthusian Theory of population and the laws of returns. We also study about the localization of industries and industrial organization.

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Exchange

In modern times, no one person or country can be self-sufficient. This gives rise to exchange. In exchange, we give one thing and take another. Goods may be exchanged for goods or for money. If goods are exchanged for goods, we call it barter.

Modern economy is a money economy. As goods are exchanged for money, we study in economicsabout the functions of money, the role of banks and we also study how prices are determined. Wealso discuss various aspects of international trade.

Distribution

Wealth is produced by the combination of land, labour, capital and organization. And it is distributed in the form rent, wages, interest and profits. In economics, we are not much interested in personal distribution. That is, we do not analyse how it is distributed among different persons inthe society. But we are interested in functional distribution. As the four factors or agents of production perform different functions in production, we have to reward them.

Public Finance

Public finance deals with the economics of government. It studies mainly about the income and expenditure of government. So we have to study about different aspects relating to taxation, publicexpenditure, public debt and so on.

Wealth

In ordinary speech, when we refer to wealth, we mean money. But in economics, it has a special meaning. It refers to those scarce goods which satisfy our wants and which have money value. Wemay consider anything that has money value as wealth in economics. All economic goods have value–in–exchange. So wealth includes all economic goods.Wealth has been defined as *"stock of goods existing at a given time that have money value"*.

Characteristics of Wealth

The following are the characteristics of wealth :

1. *It must possess utility*. It must have the power to satisfy a want. As Marshall says *"they mustbe desirable"*.
2. *It must be limited in supply*. For example, air and sunshine are essential for

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life. We cannot live without them. But we do not consider them as wealth because they are available in large quantities. Such goods are known as free goods.

3. *Wealth should be transferable*. That is, it should be possible for us to transfer the ownershipfrom one person to another.

4. *It must have money value.*

5. *It may be external*. For example, the goodwill of a company is external wealth. Utility, scarcity and transferability are thus important characteristics of wealth.

Classification of Wealth

Wealth may be classified into

a) personal wealth (individual wealth)

b) social wealth (collective wealth), c) national wealth (a + b) and

d) cosmopolitan wealth (e.g. ocean).

Goods

In economics, the term "goods" refer to material and non-material things. Just as an apple or a chair is a good, music or the services of actors, musicians and teachers are some of the examples of goods. Goods can be classified into *free goods and economic goods*.

Goods like air and sunlight which are the gifts of nature are free goods. They are not scarce. So they do not command a price in the market. They are known as free goods. Economic goods command a price in the market. In other words, they have value-in-exchange. For, they are scarcein relation to demand. In this connection, we have to remember that what is a free good in one place can become an economic good in another place. It all depends on the supply of a good and the demand for it. For example, in some villages firewood is a free good. But in a town where we have to pay a price for it, it becomes an economic good. Similarly, water which is a free good becomes an economic good when there is scarcity of water.

Goods may be further classified into (1) consumers goods and (2) producers goods. Consumers goods satisfy our wants directly. They can be classified into (1) perishable goods (eg. vegetables, fish and music) and (2) durable goods (eg. a house, a car, a radio). Capital goods satisfy our wants indirectly. Machines that are used to make machines are called capital goods.

For example, car is a sort of machine. It is a consumers" good. But there must be some other machine to make a car. That machine is known as capital good or producer good. But what is a consumers" good in one place can become a producers" good in another place. For

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example, when electricity is used for lighting purposes at home, it is a consumers‟ good. But the same electricity when used in factories for industrial purposes, it becomes a producers‟ good.

Value

The term "value" refers to the exchange qualities of a good. According to Marshall, "the termvalue, is relative and expresses the relation between two things at a particular place and time". Value is of two kinds (1) value–in–use and (2) value–in– exchange. Although air, rain and sunshine have value– in–use, they do not have value–in–exchange. In economics, we are interested only in those goods which have value–in–exchange.

For a good to have value– in– exchange, it must possess utility, it must be scarce in relation to demand and it must be possiblefor us to exchange it. In other words, all economic goods have value-in-exchange. Value is generally measured in money and it is a relative term. The value of a thing changes accordingto time and situation. For example, ice has more value in summer than in winter.

Price

When value is expressed in money, it is called price. Generally, economists make no distinction between value and price. All prices are related to one another. They form the price system. The prices most familiar to us are the prices we pay for goods sold in market, that is, retail prices.

Many payments like rent, wages and interest are also prices which we pay respectively to land, labour and capital. Price system plays a very important role in a capitalistic economy. Buyers express theirdesire for goods only through prices. Every price we pay for a good is a vote in favour of it. It is the price system that regulates the economic activity of a society.

Market

In the ordinary language, market refers to a place where goods are bought and sold. Thus Koyambedu market in Chennai refers to a place where vegetables are sold. In economics, market does not refer to any particular place in which goods are bought and sold. But it refers to buying and selling of a commodity. In a market a commodity is bought and sold under given conditions and there will be a number of buyers and sellers who will be in close touch with each other.

For example, a fish market refers to buying and selling of fish; here both buyers and

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sellers are in closecontact. According to Benham, "Market is any area over which the buyers and sellers are in close touch with one another either directly or through dealers, that prices obtainable in one part of market affect the prices paid in other parts".

Generally speaking, when we talk of markets, we referto commodities that are bought and sold. But there are markets for things other than commodities. Thus there are labour markets, foreign exchange market, capital market and so on. For example, we may say the market for an actor, say „X", is dull. So there may be a market for anything whichhas a price.

Classification of Markets :

Markets may be classified according to space, time and the natureof competition. According to space, markets are classified into local market (eg. vegetables,flowers), national market (e.g. sarees) and international market (e.g steel, cotton, sugar, tea). Markets can also be classified according to the type of competition.

Thus, broadly we haveperfect markets and imperfect markets. Markets can also be classified into short period marketsand long period markets according to time. If the period is short, demand plays an importantrole in the market and if the period is longer, supply plays an important role. Thus markets canbe classified according to space, time and the nature of competition that prevails.

2. Economic Planning

Then the Plan is formulated after detailed

1. *Centralized Planning* : In a socialist economy (eg. Former Soviet Russia), there was centralized planning; it was planning by direction. In a socialist state, most of the means of production are owned by the State. All basic economic decisions such as whether priority is to be given for industrialization or for development of agriculture ; if it is decided to give importance to industrialisation, whether to give importance to basic and heavy industries or for consumer goodsindustries will be made by the central authority.
2. *Planning by Inducement* : In a democracy, Planning is done by inducement. For example, ours is a mixed economy where there is a public sector and a private sector. The government has to persuade the industries in the private sector to fulfil the goals of the Plan through inducements suchas tax concessions and by providing incentives.
3. *Indicative planning* – In this type of planning, the government invites representatives of industry, and business and discuss with them in advance what it proposes to do in the Plan

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under question and indicates to them its priorities and goals. discussions with varied interests. Planning in France is a good example of indicative planning. After we embraced liberalization andprivatization policies in 1991, even Indian planning, in a way, has become indicative planning. Economic plans can also be divided into midterm plans, shorterm plans and perspective plans. OurFive Year Plans are in fact, midterm plans. Short term plans are Annual Plans. During the period of implementation, Five Year Plans operated by dividing them into Annual Plans. Perspective Plans are long term plans and the period ranges from 20 to 25 years. The Five Year Plans are formulated by taking into account the long term objectives of the Perspective Plan.

4. *Rolling Plan* : Unlike the Five Year Plan with fixed targets, in the case of the rolling plan, at the end of each year, targets will be fixed by adding one more year to the Plan. That is, withoutfixed targets for all the five years, depending upon the performance of the Plan in the current year, targets will be fixed for one more year. Like this, it will go on a continuous basis. That isthe idea behind the rolling plan. A great advantage of centralized planning is that plans can be implemented with great speed and targets and goals can be achieved. For example, by means of planning, former Soviet Russia transformed its economy, which was predominantly agricultural into a predominantly industrial nation, within a short span of 12 years. But a demerit of centralizedplanning is that as the State enjoys a considerable degree of monopoly, in the absence of competition, it is rather difficult to test the productive efficiency of state owned units. Under planning by inducement (democratic planning), though there is a good deal of freedom for people,because of the procedures and delays associated with the democratic process and because of Parliamentary democracy, there will be a lot of delay in the implementation of programmes and economic growth will be slow.

Evolution and Objectives of Planning in India

The National Planning Commission was set up in India in 1950. A major function of the Planning Commission was to "formulate a plan for the most effective and balanced utilization of the country"s resources". The Planning Commission formulated the First Five Year Plan for the period(1951–56). Since then, we completed nine Five Year Plans and we are now in the midst of Tenth Five Year Plan (2002–2007).

Objectives of Planning in India

The central objective of planning in India is to raise the standard of living of the people. OurFive Year Plans aim at increasing output. At the same time, they aim at reducing inequalities of income and wealth and providing equal opportunities for all. Growth with social justice is our basic goal.

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The major objectives of developmental planning in India may be listed as follows:

1. To raise the national income. This is known asGrowth Objective ;
2. To increase investment to a certain level within a given time ;
3. To reduce inequalities in the distribution of income and wealth and to reduce concentration of economic power over resources ;
4. To expand employment opportunities ; and
5. To remove bottlenecks in agriculture, manufacturing industry (especially capital goods) and the balance of payments.

In the agricultural sector, the main objective was increasing agricultural productivity and attaining self–sufficiency in food grains. In the industrial sector, the emphasis was on basic and heavy industries. In the foreign trade sector, the emphasis was on having a viable balance of payments position". The strategy adopted in Indian Planning is often referred to as „Mahalanobis strategy". In this strategy, emphasis was laid on rapid industrialization with priority for basic and heavy industries.

Though achieving regional balance is mentioned in our plans, we have not succeeded much in reducing regional imbalances. In agriculture, there are surplus states and deficit states, with reference to foodgrains. In manufacturing industry, there are advanced regions and backward regions. Not only that, industrial growth is concentrated in and around Mumbai, Kolkata and Chennai. Our Five Year Plans pay attention to the problems of poverty and unemployment. The average Indian is among the poorest of the world. So, our Plans want to remove poverty and improve the lot of the common man and the weaker sections like SC/STs, OBCs, women and children. The standard of living depends upon per capita consumption and per capita consumption depends upon per capita income. And this in turn depends upon employment. So our plans have looked at employment as an integral part of the problem of the removal of poverty. In the rural sector, there is concentration of land in the hands of a few persons even today. In spite of our landreform programmes, nearly 50 percent of agricultural land is owned by 10 percent of the population. And Green Revolution has helped largely big landlords. Even the ownership of industrial assets is concentrated. Of course, the basic causes of poverty in India are low agricultural productivity and rapid growth of population resulting in low savings and disguised unemployment. The Government has not succeeded much in solving the problems of rural unemployment and underemployment by giving support to cottage and small scale industries. There is an urban bias in Indian Planning. Agriculture did not receive enough funds in the past. But we cannot say the planners have neglected agriculture. India began the process of planned economic

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development five decades back. The First Five Year (1951-56) stated that the purpose of planning in India was to initiate " a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life".

The Second Five Year Plan (1956-61) aimed at rapid industrialization with particular emphasis on the development of basic and heavy industries. It was during the Second Plan period, the Governmentembraced the goal of *democratic socialism*.

The Third Five Year Plan aimed at self – reliant and self – generating economy. After the Third Plan, we had a *"Plan Holiday"*.

The Fourth Plan did not commence immediately after the Third Plan. We had three Annual Plans (1966-69). The FourthFive Year Plan (1969 – 74) had two basic objectives:1. Growth with stability, and 2. Progressive achievement of self reliance.

The Fifth Plan(1974-79) focused on growth with social justice. The slogan during the period was *Garibi Hatao* (Removal of Poverty). So, the two main objectives of the Fifth Plan were removal of poverty and attainment of self–reliance.

When Janata Party was in power at Centre, it formulated the Sixth Plan(1978 – 83). But when the Congress came back to power, it discarded it and formulated a new sixthFive Year Plan (1980 – 85). It aimed at a direct attack on poverty by creating conditions for an expanding economy.

The Seventh Five Year Plan (1985-90) emphasized on accelerating agricultural growth in foodgrains production, increasing employment opportunities and raising productivity in all sectors. When the final version of the Eighth plan (1992 – 97) was formulated, there were major changes in our economic policy marked by liberalization, privatization and globalization.

The Eighth Plan 1992 – 97 reflected these changes and aimed at accelerating economic growth and improving the quality of life of the common man. The main objectives of Planning in India may be grouped under four heads: *Growth, modernization, self–reliance and social justice.*

Growth

In the first 30 years of planning, the trend rate of growth of national income was 3.5 percent. Eminent economist Raj Krishna called it the *Hindu rate of growth*. Agricultural production increased at an average rate of 2.7 percent and industrial production at 6.1 percent. And per capita income increased at the trend rate of 1.3 percent. Though these rates

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appear rather small,we must remember that throughout the British period, for almost a century, there was stagnationin the Indian economy. For example, in the undivided India from 1901 – 46, the trend growth rate of the national income was only 1.2 percent. So one of the achievements of planning in Indian economy is that it has overcome stagnation and we have had a slow but steady economicgrowth.

The growth performance of the economy during different plan periods is given in Table 5.1. From the Table, it can be seen that there are shortfalls in the growth targets during early plan periods except the First Five Year Plan. During the Ninth Plan period, the GDP growth rate was 5.4 percent as against the target of 6.5 percent.

Modernization

The term „modernization" refers to a number of structural changes in the economy. Underplanning, Indian economy got transformed from a colonial economy to an independent and modern economy. There has been a change in the composition of national income. For example, now agriculture contributes less and service sector contributes more. In agriculture, afterthe Green Revolution, there has been a change in the technology of agriculture.

Self – Reliance

During the early phase of our planning, we depended on external assistance for many things – food, technology and foreign exchange. But since the Fifth Five Year Plan, self–reliance has become oneof the major goals of our planning.

Social Justice

By social justice, we mean equal opportunities for all. That means, improving the standard of livingof the poorest groups and reduction in inequalities in income and wealth.

Ninth Five Year Plan (1997 – 2002)

The Ninth Plan covered the period from 1997 to 2002. The focus of the Ninth Plan was on growth with social justice and equality. The Planning Commission wanted it to be a people oriented plan where the people at large, particularly the poor will participate. The Plan was formulated keeping in mind the quality of life of people, generation of productive employment, regional balance and self – reliance.

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Main objectives of the Ninth Plan

The main objectives of the Ninth Plan are as follows :

1. Priority to agriculture and rural development so as to generate adequate productiveemployment and to eradicate poverty ;
2. Growth with stable prices;
3. To ensure food security to all, especially vulnerable sections of the society;
4. Providing basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter and connectivity to all in a time bound manner ;
5. Containing the growth of population ;
6. Ensuring environmental sustainability of the development process through people"sparticipation ;
7. Empowerment of women and socially disadvantaged groups such as SC/STs and OBCs andminorities as agents of socioeconomic change and development ;
8. Promotion and development of Panchayati Raj institutions, co-operative and self–helpgroups where the participation of people is large ; and
9. Strengthening efforts to build self– reliance.

The Ninth Plan considered (1) Quality of life of citizens, (2) generation of productive employment and (3) regional balance as areas of special importance for State intervention. The Ninth Plan aimed at achievement of an average growth rate of 6.5 per cent of GDP (at market prices). The Plan aimed at investing 28.2 percent of GDP duringthe Plan period.

Tenth Five Year Plan (2002 – 2007)

The Tenth Five Year Plan aimed at explicitly addressing the issues of equity and socialjustice. It fixed a target of 8 percent GDP growth rate for 2002 – 2007. The key targets fixed for the Plan are as follows :

1. Reduction of poverty by 5 percentage points by 2007 and 15 percentage points by 2012.
2. Gainful employment to the addition to the labour force during the Plan period;
3. Universalaccess to Primary education by 2007 ;
4. Reduction in the decadal rate of population growth between 2001 to 2011 to 16.2 percent ;

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5. Increase in literacy to 75 percent by 2007
6. Reduction in infant mortality rate (IMR) to 45 per1000 live births by 2007 and to 28 by 2007;
7. Reduction of maternal mortality ratio (MMR) to 2 per 1000 live births by 2007 and to 1 by 2012.
8. Increase in forest and tree cover to 25 percent by 2007 and to 33 percent by 2012 ;
9. All villagesto have access to potable water by 2012

3. Land Reforms & Agriculture

Agriculture

Role of Agriculture in Economic Development

Agriculture occupies a very important place in the economic life our country. It is the backbone ofour economic system. Agriculture has been the major source of livelihood in the Indian economy. India is primarily an agricultural country. The fortunes of the economy are, even now, dependent on the course of agricultural production. The importance of agriculture in the national economy can be best explained by considering the role of agriculture under the following heads.

1. Contribution to National Income

Agriculture contributes even now a major share of the national income in India. The distribution of national income by industrial origin for the period 1950-51 to 1979-80 shows that the share of various agricultural commodities, animal Husbandry and ancillary activities has always been more than 40 percent. As a matter of fact, during the fifties, it contributed around half of the national output. During eighties and nineties, a further fall in this proportion took place. During 2002-03, it stood at about 25 percent.

2. Major source of Livelihood

The main source of livelihood is agriculture. Six out of every ten persons in India depend uponagriculture. In industrially advanced countries like U.K., U.S.A., etc, the number of people dependent on agriculture is very low as compared to India. Over the years 1921-2001, the size of labour force dependent on agriculture had more than doubled. The sector is plagued by evilssuch as underemployment, disguised unemployment and low productivity employment.

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3. Provider of Employment

Agriculture provides employment and work to an overwhelming majority of the Indian masses. In villages, about seventy per cent of the people earn their livelihood from cultivation and allied agro-industries. In absolute terms, agriculture provided employment to 97 million persons in 1995; the number of people working on land (cultivators and agricultural laborers) increased to 235 million.

4. Industrial development

Agriculture provides raw materials to the industries. Cotton and Jute textile industries, sugar, vanaspathi and plantations – all these depend on agriculture. Many of our small scale and cottage industries like handloom weavings, rice husking, coir, khadi etc., depend upon agriculture for their raw materials. There are many other industries, which depend on agriculture in an indirect manner.

5. International Trade

Indian agriculture plays an important role in the country‟s international trade. The main exported agricultural commodities are tea, oil cakes, fruits and vegetables, spices, tobacco, cotton, coffee, sugar, raw wool and vegetable oils. Agriculture contributes to a sizeable part of exports and it is an important segment of imports of the economy. The agricultural sector is a net earner of foreignexchange.

6. Capital Formation and Investment

The major part of production assets of the country is in the form of agricultural assets like land, irrigation facilities, tractors, agriculture implements, ploughs, pump sets and storages. Since agriculture contributes about 25 percent of the national income, this sector is the primary source of savings and hence capital formation for the economy.

7. Food and Fodder

In India, agriculture meets almost the entire food requirements of the people. Agriculture also provides fodder to sustain livestock whose number runs to several crores.

8. Economic Planning

Agriculture is the backbone of the Indian economy and prosperity of agriculture can also largely stand for the prosperity of the Indian economy. Importance of agriculture in the national economyis indicated by many facts. For example, agriculture is the main support for India‟s transport system, since railways and roadways secure bulk of their business from the movement of goods. Internal trade is mostly in agricultural products. Agricultural growth has direct impact on povertyeradication.

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9. International Ranking

At the global level, Indian agriculture has ranked in certain commodities. In the case of groundnuts, India stands first in the world, for rice production it ranks second and in the case of tobacco it occupies third rank in the world. The significance of India arises also from the fact that the development in agriculture is an essential condition for the development of the national economy. According to Ragnar Nurkse, surplus population in agriculture should be removed and used in newly started industries and public works in rural areas. By doing so, agricultural productivity will be increased on the one hand and on the other, new industrial units would be set up with the use of surplus labour. Agriculture is not only the largest and most important sector of the Indian economy, but also the most backward one. The growth of agriculture, therefore, is of vital importance for the growth of the entire economy.

Contribution of Agriculture to Economic Growth

Simon Kuznets identifies four possible types of contribution that the agricultural sector is capableof making for overall economic development. These are:

1. Product contribution i.e., making available food and raw materials.
2. Market contribution i.e., providing the market for producer goods and consumer goods producedin the non-agricultural sector
3. Factor contribution i.e., making available labour and capital to the non- agricultural sector and
4. Foreign Exchange contribution. **Relationship between Agricultural and non-agricultural sector**

During the process of development, inter- dependence between agriculture and industry has become stronger through the

1. Production linkages
2. Demand linkages and
3. Savings and investment linkages.

Production Linkages

Production linkages arise from the interdependence of agriculture and industry for productive inputs i.e., supply of agricultural materials such as cotton, jute, sugar cane etc., to agro-based industries and supply of fertilizes, machinery and electricity by industry to agriculture over the last five decades. These linkages have got further strengthened with agriculture‟s dependence on industry reflecting the modernization of agricultural sector.

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2. Demand linkages

There are strong demand linkages between the two sectors. The impact of incomes and industrialization on the demand for food and agricultural raw materials is generally recognized.

3. Savings and Investment linkages

Equally significant is the impact of rural income on industrial consumption goods, i.e., clothing, footwear, sugar, edible oils, TV sets, washing machines, refrigerators, motor bikes, etc. A recent study concludes; "Rural bazaar outbuys urban market". **Components of Agricultural Growth**

An increase in agricultural production can result from an increase in area under cultivation (horizontal expansion) and /or from an increase in the productivity (vertical expansion). Productivity has two aspects to it, viz., land productivity and labour productivity.

Productivity of Indian Agriculture

India with its sizable agricultural sector has to face a number of problems. Low production and low productivity are at the core of agricultural problem In India. The productivity of agriculture is relatively low in India compared to other countries with comparable natural environment. There have But conditions in agriculture have not changed much. It will be useful to analyze the factors responsible for the backwardness of are agriculture. The factors are classified into

1. Demographic factors
2. General factors
3. Institutional factors and
4. Technologies factors

1. Demographic factors

The most important demographic factor responsible for low yield in agriculture is the increasing pressure of population on land. With population growth rates being what they are, an increasing addition to the labour force could be expected to be absorbed in the industrial sector of the economy. But the rate of growth in the industrial sector has been far from adequate.

Consequently,the increasing population has fallen back on land for its livelihood, with the result that the population pressure has created a number of problems like fragmentation

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and subdivision of holdings; the supply of improved practices and services has always fallen short of requirements. It has created conditions of unemployment and disguised unemployment. All these evils, taken together have been responsible for low productivity in agriculture.

2. General Factors

a) Excess or surplus labour in Agriculture

The main cause for the low agricultural labour productivity is the overcrowding in agriculture. There are many people who depend on agriculture. As population increases, the pressure on land also increases, because natural increase is not absorbed by the industrial sector.

b) Discouraging Rural climate

The farmers of India generally are poor, ignorant, superstitious, conservative, and illiterate and bound by outmoded customs and institutions such as the caste system and the joint family system. Superstition and belief in fact are the curses, which keep the farmers fully satisfied with their primitive system of cultivation. Except for a small group of farmers, who adopted quickly modern techniques of production, vast majority of farmers are not motivated by considerations of economic progress.

c) Inadequate non-farm services

Indian agriculture has suffered because of the inadequacy of non-farm services such as provision of finance, marketing etc. All these facilities are inadequate in India. Marketing system is defective and costly. Modern warehousing is inadequate and indigenous. Storing methods are defective and costly. Modern credit facilities are still poorly developed for the farmers. Farmers still depend on moneylenders for their day- to-day requirements.

3. Institutional factors

a) Size of holdings

The average size of holdings in India is very low. About 80 percent of the land holdings are less than 2 acres. Not only agriculture holdings are small but they are fragmented too. In certain parts of the country, plots of land have become so small that it is impossible to move even ordinary plough. Since the average agricultural holdings are too small, no scientific cultivation with improved implements, seeds etc. are possible. Small size of holdings lead to great waste of time, labour and cattle power, difficulty in proper utilization of irrigation facilities, quarrels and consequent litigation among farmers, wastage of crops in the absence of fencing etc.

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a) Defective land tenure structure

The land tenure system in India has been depressing and disincentive ridden. It has built in featuresto support stagnation. The main features have been the presence of intermediaries; exploitative owner-tenant relationship; small and fragmented holdings; and the heavy and ever increasing pressure of population on land.

4. Technological factors

a) Poor inputs and techniques

The method and techniques of cultivation have been old and inefficient. It results in high cost andlow productivity. These methods have not undergone any change for centuries. The investment in agriculture in the form of manures and fertilizers, improved seeds, irrigation, tools and implements and other types of assets has been miserably low.

b) Inadequate irrigation facilities

One of the basic causes for the weakness of Indian agriculture has been that most of the farmersthroughout the country have to depend upon rainfall and very few of them can avail the facilitiesof artificial irrigation.

c) Indebtedness of the farmers

It is said that the farmers in India are born in debt, live in debt, die in debt and bequeath debt. The causes of their indebtedness are many such as hereditary debt, litigation, want of supplementary incomes and wasteful social expenditure.

d) Inadequate Research

Benefit of research and development has not reached all the farmers. Extension is confined to a few individuals and the modern pattern of farming is yet to take roots in the countryside.

e) Remedial measures

The above causes of low agricultural productivity also suggest their own remedies. Following remedial measures should be taken in order to solve various problems of Indian agriculture.

1. Co-operative joint farming should be launched on a national scale
2. Check on the population growth
3. Arrangements for better manures
4. Use of better seeds

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5. Alternative arrangements for irrigation facilities.
6. Improvements in agricultural credit
7. Reclamation of waste lands
8. Consolidation of holdings
9. Use of new implements
10. Soil conservation and intensive cultivation
11. Improvement in marketing system

12. Encouragement to agricultural research and plant protection. It is our responsibility to do allwithin our means to improve agriculture in India. The future of our rural population, solution of food and food problems and industrial development of our country depend upon agriculture only. ***Cropping Pattern in India***

Cropping pattern means the proportion of area under different crops at a point of time. In other words, it means a ratio of different crops cultivated at a particular time. A change in cropping pattern implies a change in the proportion of area under different crops.

Land Reforms

Land reforms refer to all kinds of policy- induced changes relating to the ownership, tenancy andmanagement of land.

Objectives of land reforms in India

In India the land reform programme has been one of the major policies for rural development. The major objectives of land reforms are as follows:

i) Restructuring of agrarian relation to achieve egalitarian social structure.
ii) Elimination of exploitation in land relations
iii) Actualization of the goal of „land to the tiller"
iv) Improvement of socio-economic conditions of the rural poor by widening their land base.
v) Increasing agricultural production and productivity
vi) Facilitating land based development of rural poor
vii) Infusion of a greater measure of equality in local institutions.

Land reform measures in India

The land reforms programme in India has been done through three different methods:

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i) Voluntary adoption facilitated by incentives provided by the State through measures likeco-operative farming and consolidation of holdings.

ii) Voluntary adoption supplemented by statutory compulsion made possible by the enactmentof legislation as in the case of consolidation of holdings.

iii) Compulsion exercised through different legislative measures, as with the abolition ofintermediaries", tenancy reforms, ceilings on holdings etc.

Agricultural marketing

Agricultural marketing means the economic process under which agricultural goods are exchanged. Process of agricultural marketing determines the value of agriculture products in terms of money and delivers them to their final consumer.

Importance of agricultural marketing

Agricultural marketing is a specific part of marketing. It is related to agricultural products only. It is the base of most of the economic activities of a country. It brings marketable surplus to the market for sale. Farmers willkeep a portion of their produce for self-consumption and cattle and the remaining portions are left for sale. Higher level of marketable surplus leads to greater economic development. The importance of agricultural marketing is as follows:

1. Provides raw materials for industries.
2. Provides foodgrains for the entire population and fodder for cattle.
3. Provides a base for expansion of internal market of a country.
4. Helps in the expansion of international market also when marketable surplus found in excess of the demand of a country, fetches a considerable amount of foreign exchange. At present, most of the farmers sell their produce through village level markets, fairs, *mandies*; co-operative societies and government also purchases agricultural produce direct from farmers.

Marketable Surplus

Marketable surplus may be defined as the residual of produce left with the producer after meeting his requirements for family consumption, farm needs etc. It also means the portion of produce left for sale. Marketable surplus, which is genuine and not artificial or forced, is the fountain source of not only agricultural development but also of overall economic development.It is the real surplus generated by agricultural sector. It can be measured thus:

(Old stocks + Current output) – (Consumption + waste + inventories for next season)

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Marketable surplus is referred to as „gross surplus" from agriculture, while marketed surplusis referred to as „net surplus" from agriculture.

Determinants of marketable surplus

The various variables that determine marketable surplus are I) size of holding ii) production ofcrop iii) size of family and iv) non-farm income. In addition to this, the quantity of marketablesurplus will also depend on an efficient marketing system.

Importance of marketable surplus

Rising marketable surpluses are the real surpluses, which determine the real income, real savings, real capital formation and real investment and have great importance in raising the welfare in inflation free economies. Fall in the real marketable surpluses in less developed economies, raise the prices of not only foodstuffs but also of other wage goods and invariably the real levels of living of working class may go down.

Food Problem in India

Food, clothing and shelter are the basic necessities of a person. Among these, food is the first most important necessity. No one can survive without sufficient food. It is a prime duty of every government to provide sufficient food to all the people of a State. If a government fails to provide sufficient and nourishing food to her people, she fails on all the economic social and political fronts. Therefore, sufficient food should be provided to all the people of a State. Production of food grains should be sufficient to meet their demand. If the production is less than demand, the country will have to import food grains which will create the problem of adverse balance of trade and balance of payments. In India, food problem is a chronic problem. It dates back to 1937, the time of separation of Burma from India and 1947, the time of partition. Unemployment has further aggravated the problem.

Nature of food problem in India

India is the second most populated country of the world. Being so, food requirements of the countryare increasing day by day. Food problem in India covers four important aspects.

1. Quantitative Aspects

Quantitative aspects of food problem are related to the demand and supply of food grains. Production of food grains has been less than their demand for a long period. Though in the last few years, domestic production of food grains has increased considerably, yet the country hasto import food grains in large quantities from time to time.

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2. **Qualitative Aspects**

Qualitative aspect of food problem is related to nutritive elements in food. Proteins, vitamins, minerals, carbohydrates etc. are the important elements of a balanced diet but these elements are not available in sufficient quantities to most of the Indian people. According to experts, a person should get 3,000 calories per day but on an average 2100 calories are available to the people in India. Most important reason of this situation is the poverty of most of the people inIndia.

3. **Distributive Aspects**

Distributive aspects of food problem are related to the system of marketing of agricultural products. Due to defective system of distribution, most of the persons do not get foodgrains insufficient quantities, at right time, and at fair prices. Anti-social elements create artificial shortage of these products in market and sell them at unreasonable prices. Most important reason for this situation is administrative sluggishness.

4. **Economic Aspects**

Economic aspects of food problem are related to purchasing power of people. National income andper capita income of India are very low. The result is that most of the people in India are not in a position to afford the purchase of nourishing food grains in sufficient quantities.

Causes of food problem in India Important causes of food problem in India are as follows:

i) Rapid growth of population.

ii) Low agricultural productivity.

iii) Natural calamities.

iv) Development of commercial crops.

v) Changes in the consumption pattern.

vi) Increase in income demand for food.

vii) Economic development and urbanisation.

viii) Hoarding and black marketing.

Food policy of Government of India

Soon after independence, the government took the problem of shortage of food grains

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seriously. Several important measures have been taken by government to solve this problem. These measuresmay be enumerated as follows:

Increase in Production of Foodgrains

Agricultural development has been accorded top priority in almost all the Five Year Plans. Several programmes have been launched to increase agricultural production and productivity such as intensive farming, multi – crop programme, development of high yielding varieties of seeds, intensive use of fertilizers. As a result of these efforts, production of foodgrains has increased from 50.8 million tonnes in 1950-51 to 192.4 million tonnes in 1997-98.

Import of Foodgrains

To meet the shortage of foodgrains, the government has been importing food grains from time to time. 48 lakh tonnes of food grains were imported in 1951 which increased to 103 lakh tonnes in 1966. During 4 years 1991,1992,1995 and 1996, the imports have been almost nil.

Procurement of foodgrains

Government adopted the system of procurement of food grains. Under the system, government procures foodgrains from market every year. For this purpose, procurement prices or minimum support prices are announced by government every year for all the important foodgrains and all the government purchases are made at these prices. It helps in protecting farmers against the malpractices of traders and commission agents.

Public Distribution of Food grains

Government adopted public distribution system to ensure fair distribution of food grains at controlled prices. Under the system, fair price shops are opened. Each such shop is envisaged to serve a population of about 2000. As on 31st March, 1998, there were about 4.50 lakh fair price shops (Ration shops) in the country. These shops supply rice, wheat, sugar, edible oils and kerosene to people in certain quantity at controlled prices.

Buffer Stock Scheme

Government started a scheme of maintaining buffer stock of important food grains to ensure their regular supply throughout the year. Whenever there is a rise in their prices, government releases them from buffer stock to stabilise prices. Buffer stock operations are normal these days and they have become a normal part of the food policy of Government of India.

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Establishment of Specific Institutions

A number of specific institutions have been established by government to promote agricultural production and productivity and to ensure regular supply and fair distribution of food grains. Important institutions are: National Seeds Corporation, Agro-industries, Corporation, Agricultural, Prices Commission, Food Corporation of India, Fertilizer Corporation of India, etc.

Public Distribution System (PDS)

Public distribution system means the regulated and controlled distribution of essential goods among people. Under the system, essential consumer goods are provided to people at fair pricesthrough government agencies.

Main Constituents of Public Distribution System Fair Price Shops or Ration Shops

Public distribution system ensures supply of essential commodities through a network of fair price shops. At present, there are about 4.50 lakh fair price shops in India, out of which about 3.60 lakh shops are operating in rural areas and 0.90 lakh shops are operating in urban areas. Each shop is envisaged to serve a population of about 2000.

Consumers Co-operative Stores

Consumer co-operatives play an important role in the supply of quality goods at reasonable rates to common people. There is a three-tier structure of consumer co- operative societies in India. They are primary consumer cooperative societies, central consumer co-operative stores the distribution of consumer goods in rural areas.

Shops selling Cloth at Controlled Prices

These shops sell cloth at controlled prices to consumers on the basis of their ration cards. More than 66,000 shops are selling such cloththroughout the country.

Super Bazaars

Super bazaars are the bazaars which provide all the goods of daily needs at controlled prices. These markets enable the consumers to complete their purchases from one place. These bazaars are working in almost all the major cities of India.

Kerosene Retailers

In some states, kerosene is distributed through fair price shops while in other states, specific retailers have been licensed for the purpose.

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Commodities of Distribution

Six key essential commodities viz., wheat, rice, sugar, imported edible oils, kerosene and soft coke are distributed to consumers through public distribution system. Besides, state governments are empowered to include other essential goods in the system.

Responsibility of Supply of Commodities

Different institutions have been assigned the responsibility of procurement, allocation and distribution of different goods as under:

i) Food Corporation of India for wheat, rice and other food grains,

ii) Indian Oil Corporation and Ministry of Petroleum for Kerosene,

iii) Coal India Limited for soft coke,

iv) National Textiles Corporation, and

v) State Trading Corporation for imported edible oils.

Agricultural Price Policy

Agricultural price policy means a policy to determine, regulate and control the prices of agricultural products. Important objectives of agricultural price policy are: (i). To determine, regulate and control agricultural prices; (ii). To prevent violent fluctuations in agricultural prices; (iii) To provide fair prices for agricultural products to the farmers; (iv) To provide quality goods to households at reasonable prices; (v) To maintain an appropriate relationship and balance between the prices of foodgrains and non-foodgrains; (vi) To integrate prices between various states.

Price Policies of the Government

1. Minimum support prices

A minimum support prices is declared by government, normally at the beginning of sowing season for every important agricultural commodity. These prices are a long term guarantee to farmers that the prices of these products will not be allowed to fall below a certain level. These prices assure the farmers and encourage them to carry on and to expand their production. They put their best efforts to get maximum production. If the prices fall below minimum support prices, government will buy the entire marketable surplus at procurement prices.

2. Procurement Prices

These are the prices which are declared by government, generally at the time of

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harvest of crops. These are the prices at which the government buys agricultural products from farmers. These pricesserve two important objectives:

(i) To provide guarantee to the farmers that the prices of these products will not be allowed to fall below a certain level. If market prices fall below this level, the farmers can sell their products to government.

(ii) It enables government to procure these products for maintaining public distribution system and buffer stocks. These prices are announced by government on the recommendations of Commission for Agricultural Costs and Prices (CACP). These prices are widely used by government for the procurement of wheat and rice. Procurement prices are generally higher than minimum support prices.

3. Issue Prices

Issue prices are the prices at which food grains are allocated and supplied by Food Corporation of India (FCI) to the states and union territories. These prices meet the requirements of public distribution system.

Prices of goods to be supplied through fair price shops directly depend upon issue prices. Issueprices are normally less than market prices and higher than procurement prices.

4. Retail Prices

Public distribution system is carried on through the network of fair price shops (ration shops). These shops supply essential consumer goods to households at the prices fixed by government.These prices are known as retail prices. Retail prices are higher than issue prices so that the expenses of public distribution system may be recovered and the licensees may get a certain margin.

5. Buffer Stock Operations

Buffer stock operations refer to buying and selling of food stocks by government. These operations serve two important purposes:

(i) To regulate and control price fluctuations within a reasonable limit.

(ii) To enable government to procure food stocks so that regular supply of these stocks may beensured throughout the year as well as throughout the country. These operations are carried onby Food Corporation of India (FCI). Whenever there is a fall in the prices of food stocks, FCI starts buying them at procurement prices and whenever there is a rise in these prices, FCI startsselling. Thus, buffer stock operations play an important

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Agricultural Productivity

Agricultural productivity is the ratio of agricultural inputs and output. It indicates the efficiency with which the inputs have been utilized. It indicates how much production has been obtained froma given amount of inputs. It can be measured as: Page no 11th 115

Trends of Agricultural Productivity in India

1. Productivity of Land

Productivity of land in India is very low in comparison to that of average productivity of land in other countries. It has been made clear in following two tables: Table 6.2 reveals that though productivity of land is improving and is more than double than that at the beginning of planning era, still it cannot be regarded as satisfactory. When we look at the productivity of land of other countries of world (see Table 6.3), we find that India lags far behind. Average production per hectare in India is much below the world average in all the crops. We are far behind the productivity of agricultural lands in both the developed and developing countries of the world.

2. Productivity per Worker

Agricultural productivity per worker is very low when compared with the productivity per workerin industrial and other sectors. According to an estimate, productivity per worker in the field of agriculture is onlyone- third when compared with that of large industries and one-half when compared with that of small industries. In this regard, in agriculture the part played by Nature is more important than the part played by man. Secondly, investment of capital per worker in agriculture is much less than that of in industry.

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4. Industrial Sector

Need for Industrialisation

The need for and role of industrial sector have been fully recognized by the development thinking all over the world. Industrial sector through its forward and backward linkages with other sectors plays a very important role in achieving rapid growth and development. Most modern and rich countries have well developed industrial sector through their early industrial revolution. Industrialization means widespread development of manufacturing vast quantities of goods, employing a large number of people, promoting international market, characterization of specialized skill, science, technology, increasing application of electrical, electronic, computer technologies to enhance productivity. Absence of such rigorous industrialization is the main reason for the backwardness of many poor countries too. Hence, the modern development strategies attach more emphasis to rapid industrialization to achieve faster growth and progress. The following are some of the important needs for the industrial sector.

Raising National Income

Vigorous industrialization ensures a solid and sustained base to increase the national income of aneconomy. A larger share of economies comes from industrial sector.

Employment Opportunities

Availability of surplus labour and unemployment are the major challenges of development strategy. Industrialization uses the productive resources of the economy and expands employment opportunities which in turn will improve the income and well-being of the people.

Higher Living Standard

The increasing national income through industrialization helps to meet the demands of the people for industrial products. It is also expected to improve the standard of living of the peopleby increasing their per capita income. This is possible only through a well designed growth process.

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Promoting Exports

Industrially advanced countries are able to export more and earn large foreign exchange. Theincome elasticity of industrial goods is very high than that of the primary goods. Hence, exports can be promoted to earn adequate foreign exchange by producing advanced industrial goods.

Capital Formation

Expanding employment opportunities, income generation through rapid industrialization will also lead to increased saving and capital formation in the economy. This will help to diversify and expand the industrial base further through higher investment.

Technological Progress

Industrial sector will also promote technological progress through its course of development and expansion. The technological advancements and their dynamic contents provide the required elements to strengthen the economy as a whole.

Pattern of Industrial Growth

The specific pattern of industrial growth can also be seen through the use based classification of industries. This classification consists of four major components viz.

1. Basic goods such as cement, chemicals, fertilizers, etc.
2. Capital goods such as machineries, machine tools, and engineering goods.
3. Consumer goods such as cycle, television, refrigerators, bikes, cars, food articles, soft drinks,etc.
4. Intermediate goods such as paint, plywood, pipe & tube, ancillary parts, etc. **Steel Industry**

Steel industry, being the key industry, forms the base for almost all other industries.

Manufacturing, mining, construction, power, transport and other infrastructures and service sectors are all using steel as their inputs. Thus the development of steel had a multiplier effect on almost all other sectors of the economy. Hence, it is popularly called as „mother industry". Its critical role and importance in terms of its contribution to industrialization, national income, employment generation, is noteworthy. However, unremunerative prices, inefficient management practices of giant public sector, mostly by

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bureaucrats rather than technocrats are some of the major problemsof the steel industry.

The Steel Authority of India (SAIL) was established in mid-seventies to extend support regarding raw materials and coordinate the development of many steel industries. The removal of price and distribution controls were the significant policy reform made in 1992. The production of steel has increased more than about fifty seven times since independence. It hasincreased from .7 million tons per annum in 1951 to 40 million tons in 2004-05.

Textiles

Textile industry is one of the oldest as well as the largest industries in India. It has spread to almost all parts of the country. It has been well organized in terms of the labour employed and turnover of the output. Textile industry accounts for 20 per cent of the total industrial output. It also employs 25 million people. The fabric produced during the First Plan period was 4775 million square metres. The industry underwent many changes since then. The production of fabrics in 2004-05 was 45378 million square metres.This is almost tenfold increase since independence. The major problems of the industry are non- availability of enough raw material (cotton), increasing input costs, low profitability of small mills, and high cost of modernisation. In recent years, budgetary concessions, rationalisation of duty structure and assistance under the Technology Upgradation Fund Scheme (TUFS) started paying some marginal dividends in the textile sector.

Cement

Cement is one of the emerging major industries with greater development potential. Cement, beingthe key raw material of the construction industry, plays a significant role in the country‟s current phase of development. The industry is almost self-sufficient in terms of raw materials, machinery,technology and increasing local demand. India, with all such advantage, produces only 6 per centof world cement production. It has recorded an annual growth rate of 8.4 per cent over the last two decades. Cement industry has an installed capacity of 140.53 million metric tons (mmt) with 120 large and 365 mini plants. The capacity utilization of large plants has been very high at 80 percent. The current policy reforms are expected to increase the capacity utilisation further. High input costs and poor export infrastructure are some of the problems facing the industry.

The Tenth Plan has fixed a production target of 203 mmtand the estimated investment during 2002-07 would be Rs. 17,600 crore.

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Sugar

Sugar industry is an important agro-based industry. Its contribution to the economy is manifold. This industry has been the source of rural development through employment and income generation, and increased transport and communication facilities. In addition, sugar industry also provides input for some other industry. It is also earning from abroad through exports. India has emerged as the largest sugar producing country in the world. It contributes 15 per cent of the world sugar production. However, the share of India‟s sugar in the international trade is very meagre at 0.05 per cent. Underutilization of capacity, unremunerative prices to sugar cane cultivators, industrial sickness and industrial closure are some of the major problemsof the sugar industry.

Adequate support from government, banks and financial institutions should come forward to provide enough relief to revive the sick units. The Tenth Plan has estimated an investment of Rs. 1300 crore during 2002-07.

New Industrial Policy 1991

The New Industrial Policy declared was on July, 1991 with the major aim of loosening the barriers to entry for private firms to encourage competition in the industrial sector. The industrial policy acted to consolidate the earlier gains and to build further by correcting the distortions that might have crept in the Industrial structure developed in the earlier decades. It also aims to sustain growth in the productivity and gainful employment and to attain international competitiveness. The specific reforms related to the restructuring of public sector enterprises are as follows.

(i) To encourage private participation in the economy. The areas of industry reserved for the public sector has been considerably reduced from 17 to 8. In particular, telecommunication, power, air transport, petroleum, sectors were opened for private sector.

(ii) The disinvestment of shares of some public sector enterprises in order to raise the resources and to encourage private participation in the public sector enterprises.

(iii) Public enterprises which are sick, will be referred to the Board of Industrial and Financial Reconstruction for rehabilitation or reformulation.

(iv) An improvement of performance and accountability has to be ensured through new rules andonly potentially viable public sector undertakings (PSUs) can be revived.

(v) Budgetary support to sick public sector industries will be reduced drastically.

(vi) Only potentially viable PSUs can be revived and others will be closed down.

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In 1998-99, another two sectors were removed from the exclusive public sector domain and subsequently only 3 sectors have been left under the public sector domain leaving the rest openfor private and foreign investments. Thus the Industrial Policy of 1991 has dismantled the industrial controls, regulations in a significant way to restructure the public sector and to promote private sector.

Disinvestment of Public Enterprises

The process of industrial restructuring continued in response to the new industrial policy of 1991. The new policy suggested the partial disinvestment of public sector without fixing any ceiling. Citing fiscal crisis as the reason, comprehensive efforts have been initiated subsequently to disinvest the equity of public sector undertakings to a greater extent. This is nothing but the outright process of privatization. There are three models viz. public offer, strategic sale and cross holding. The Government announced in 1998 to sell more than 51 percent in strategic sales and the new cap was fixed at 74% to 100%. The objective of disinvestment is to mobilise enough resources by way of withdrawing from some sector in order to invest in priority areas like particularly social sectors. The mobilized resources are used to repay the public debt of the government to pay for various VRS schemes, labour retrenchment and redeployment schemes under the exit policy.

The other objectives include the promotion of private sector, enhancement of efficiency and competition. In 1991-92, over Rs.30 billion was raised through the disinvestmentof public sector. In 1992-93, Rs.18.6 billion against a target of Rs.35 billion was raised. Until 2002- 03, a huge resource of around Rs.300 billion was raised through the disinvestment policy. Thoughthe policy of disinvestment is criticized vehemently by the left parties and trade unions, the government is moving towards further disinvestment of many Public Sector enterprises includingthe strategic and profit making enterprises.

Industrial Finance

Finance is the backbone of industrial development. The financial requirement of industries may befor the short term to meet 'working capital" requirements. Or it may be for a long term to meet the „fixed capital" requirements. To meet such requirements, the industries raise finance from different sources. In India, as in many other countries, industrial finance is available under two broad sources viz. external and internal sources.

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Internal Sources

Internal sources of industrial finance consist of funds mobilized from own sources as in the case of small scale units, paid-up capital in the form of equity shares subscription as in the caseof large units, own surpluses and reserve funds of industries.

External Sources

External sources of industrial finance include raising of borrowed finance from sources such as public deposits, equity capital, debenture issues and availing loans from commercial banks andother financial institutions.

Financial Institutions

The short term financial requirements can be met from internal sources like public deposits, share capital and commercial bank loans. However, for long term requirements, industries will approach specialized "financial institutions". Financial institutions in developing countries are also referred to as development banks. This implies that their role must be development oriented and not mere lending alone. Thus, they are capable of inducing the course of development through their policies and programmes. The following are some of the financial institutions available at different levels in India.

At National Level

1. Industrial Finance Corporation of India (IFCI)
2. Industrial Development Bank of India (IDBI)
3. Industrial Credit and Investment Corporation of India (ICICI)
4. Industrial Investment Bank of India (IIBI)
5. National Small Industries Corporation (NSIC)

At State Level

1. Tamil Nadu Industrial Investment Corporation (TIIC) (First of its nature to be set up inIndia in 1949)
2. State Financial Corporations (SFC)
3. State Industrial Development Corporations (SIDC)

At Intermediate Level

1. Unit Trust of India (UTI)
2. Life Insurance Corporation of India (LIC)
3. General Insurance Corporation of India (GIC)

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5. Banking

Definition of Banking

On account of country. In order to study the economic multifarious activities of modern banks, the „Bank" or „Banking" has been defined by several economists as follows: Dr.L. Herber and L. Hart define the banker, "as one who in the ordinary course of business honours cheques drawn upon him by persons from and for whom he receives money on current accounts". Chamber"s Twentieth century Dictionary defines a bank as an, "institution for the keeping, lending and exchanging etc. of money". According to Crowther, "The banker"s business is to take the debts of other people to offer his own in exchange, and thereby create money". Prof. Kent defines a bank as, "an organisation whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure". It is evident from the above definitions that a bank is an institution which accepts deposits from the public and in turn advances loans by creating credit.

Role of Banks in economic development

Banks play a very useful and crucial role in the economic life of every nation. They have control over a large part of the supply of money in circulation, and they can influence the nature and character of production in any significance of banks, we have to review the general and important functions of banks.

1. Removing the deficiency of capital formation

In any economy, economic development is not possible unless there is an adequate degree of capital accumulation (or) formation. Deficiency of capital formation is the result of low saving made by the community. The serious capital deficiency in developing economies is reflected in small amount of capital equipment per worker and the limited knowledge, training and scientific advance. At this juncture, banks play a useful role. Banks stimulate saving and investment to remove this deficiency. A sound banking system mobilizes small savings of thecommunity and makes them available for investment in productive enterprises. The importantimplications of this activity include

- Banks mobilise deposits by offering attractive rates of interest and thus convert savings into active capital. Otherwise that amount would have remained idle.
- Banks distribute these savings through loans among productive enterprises which are helpful in nation building.
- It facilitates the optimum utilization of the financial resources of the community.

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2) **Provision of finance and credit**

Banks are very important sources of finance and credit for industry and trade. It is observed that credit is the lubricant of all commerce and trade. Hence, banks become nerve centers of all trade activities and therefore commerce and trade could function in the presence of sound banking system. The banks cover foreign trade transactions also. Big banks also undertake foreign exchange business. They help in concluding deferred payments, arrangements between the domestic industrial undertakings and foreign firms to enable the former import machinery and other essentialequipment.

3) **Extension of the size of the market**

Commercial bankers help commerce and industry in yet another way. With the sound banking system, it is possible for commerce and industry for extending their field of operation. Commercial banks act as an intermediary between buyers and the sellers. Goods are supplied on bank guarantees, making it viable for industry and commerce tocultivate and locate markets for their products. The risks are undertaken by the bank. When the risks have been set free by the banks, the industry can look forward to derive economies of the large size of the market.

4) **Act as an engine of balanced regional development**

Commercial banks help in proper allocation of funds among different regions of the economy. The banks operate primarily for profits. When the banks lend their funds for more productive uses, their profits will be maximized. Introduction of branch banking makes it possible to choose between different regions. A region with growth potential attracts more bank funds. But in recent years, the approach of banks towards regional growth has been undergoing a change. Banks help create infrastructure essential for economic development. Thus banks are engines of balanced regional development in the country.

5) **Financing agriculture and allied activities**

The commercial bank helps the farmers in extending credit for agricultural development. Farmers require credit for various purposes like making their produce, for the modernization and mechanization of their agriculture, for providing irrigation facilities and for developing land. The banks also extend their financial assistance in the areas of animal husbanding, dairyfarming, sheep breeding, poultry farming and horticulture.

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6) For improving the standard of living of the people

The standard of living of the people is estimated on the basis of the consumption pattern. The banks advance loans to consumers for the purchase of consumer durables and other immovable property,which will raise the standard of living of the people. Stimulating human capital formation, facilitating monetary policy formulation and developing entrepreneurs are some of the other rolesplayed by commercial banks in the economic life of every nation.

Commercial Banks

A commercial bank is an institution that operates for profit. The traditional functions of a commercial bank relate to the acceptance of deposits from the public and provision of credit to different sectors of the economy. However, with the evolution of modern banking and growth of banking system as an integral part of the national economy, there has been a perceptible change in the attitude and outlook of the commercial banks. These banks have started providing a host of banking services to their customers. Nevertheless, the basic character of commercial banking remains unchanged. In the early days, commercial banks are organized as a joint stock company to earn profit. They cater to the needs of short-term, medium term credit and provide capital to businessmen and industrialists. In the recent days, the banks lend long term funds tobusinessmen and industrialists.

Functions of Commercial Banks

The various functions performed by commercial banks can be classified as follows:

1. Accepting or attracting deposits

Commercial banks accept deposits by mobilizing the savings of the people. These deposits can be of three forms.

a) **Savings deposits**: It is a kind of safety vault for the people with idle cash. These deposits are kept under savings account. Deposits in this account earn interest at nominal rates and the banks are entitled to release deposits on demand by the deposit holder. In practice, the bank imposes a limit on the number and amount of withdrawals during a period. Cheque facilities are also given to the deposit holder.

b) **Demand deposits**: Demand deposits are kept under current account. The depositor can withdraw the money on demand. But, the account holder should specify the amount and the number of withdrawals. Banks do not pay any interest on these accounts. On the contrary, bank imposes service charges on maintaining these accounts.

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c) **Fixed deposits**: These are also known as time deposits. The amount deposited cannotbe withdrawn before the maturity period for which they have contracted. These deposits carry interest at higher rates varying with the length ofthe contract.

2) **Advancing of loans**

Banks adopt several ways for granting loans and advances. These operations take different forms.

a) **Cash credit**:

The bank sanctions loans to individuals or firms against some collateral security.The loan money is credited in the account of the borrower and he can withdraw the amount as and when it is required. The ceiling of the loan amount is determined by the bank on the basis of the stock value of the borrower which in turn becomes Banker‶s possession. The borrower can withdraw the cash within or upto the credit limit. The bank charges interest for the amount withdrawn only.

b) **Provision of overdraft facilities**

The respectable and reliable customers enjoy these facilities. The customer can issue cheques andoverdraw the money in times of need, even if there is no adequate balance in his account. The customer will pay the interest to the bank for the amount overdrawn.

c) **Discounting bills of exchange**

This operation is done through discounting of commercial papers, promissory notes and bills of exchange, usually for three months. The banks after deducting interest charges and collection charges from the face value of the bills, give the balance amount to the customer. When the exchange bill matures, the banks collect the payment from the party.

3) **Creation of money or credit**

Every loan sanctioned by the banker creates a deposit. Because, when a bank sanctions loan toa customer, an account is opened in his name and the loan amount is credited into his account.The borrower withdraws money whenever the amount is required. The creation of such deposits leads to increase in the money stock of the economy and through its circulation creates new money.

4) **Other functions**

Some of the other important functions performed by these banks are as follows:

a) **Transfer of funds**

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In the complexity of trade and commerce in the modern days, the transfer of funds from one place to another becomes difficult. Banks help in eliminating this difficulty through the use of various credit instruments like cheques, bank drafts and pay orders, traveller cheques, etc. Thisprocess is called "clearing" and it is efficiently done by bank operations.

b) Agency functions

Commercial banks are increasingly acting as financial agents for their clients. They make all sorts of payments on premium, pension claims, dividend claims or capital demands etc. Likewise,they buy and sell gold, silver and securities on behalf of their clients.

c) General utility services

A commercial bank performs general utility services such as

i) providing safety lockers for the safer custody of valuables of the customers.

ii) Issuing of letter of credit to the customers.

iii) Under-writing loans to be raised by public bodies and corporations.

iv) Compiling statistics and information relating to trade, commerce and industry. commercial banks render valuable services to the community.

Developed banking system ensures industrial and economic progress. It constitutes the lifeblood of an advanced economic society. In developing countries like India, commercial banking may be described as "development banking". It plays a critical developmental role in making their funds available to the priority sectors, weaker sectionsand employment- oriented schemes.

Central Banks

The banking system of a country can work systematically in coordinated manner, only if there is an apex institution to direct the activities of the banks. Such apex institution is popularly known as "central bank". The central bank of the country is an autonomous institution, entrusted with powers of control and supervision. It controls the monetary and banking system of the country. After World War II, the International Monetary conference held at Brussels in 1929 recommended the setting up of a central bank in every country. The central bank of our country, known as Reserve Bank ofIndia was set up in 1935. The central bank of England called Bank of England was established in 1694. It is known as the „mother of central banks", since it provides the fundamentals of the art ofcentral banking. The central bank of France called „Bank of France" was founded in 1800. The USA established a central

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banking system in the form of Federal Reserve Banks in 1914.

Definition of a central bank

A central bank has been defined in terms of its functions. The following are some of the definitions given by economists. According to Smith, "the primary definition of central bankingis a banking system in which a single bank has either complete control or a residuary monopolyof note issue". H.A. Shaw defines a central bank, "as a bank which controls credit". In the words of Hawtrey "a central bank is that which is the lender of the last resort". According to Samuelson, "a central bank is a bank of bankers. Its duty is to control the monetary base and through control of high-powered money to control the community"s supply of money.

Distinction between central banks and commercial banks

The central bank is basically different from commercial banks in the following respects.

1. The central bank is the apex institution of the monetary and banking system of the country. A commercial bank is only a constituent unit of the banking system and a subordinate to the central bank.
2. While the central bank possesses the monopoly of note-issue, commercial banks do not have this right.
3. The central bank is not a profit making institution. Its aim is to promote the general economic policy of the government. But, the primary objective of commercial banks is to earn profit for theirshareholders.
4. The central bank maintains the foreign exchange reserves of the country. The commercial banksonly deal in foreign exchange under the directions of the central bank.
5. The central bank is an organ of the government and acts as its banker and the financial advisor,whereas commercial banks act as advisors and bankers to the general public only.

Functions of Central bank

The main functions of a central bank are common all over the world. But the scope and content of policy objectives may vary from country to country and from period to period depending on the economic situations of the respective country. Generally all the central banks aim at achieving economic stability along with a high growth rate and a favourable external payment position through proper monetary management. The common functions of

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central banksare discussed below.

1. Regulator of currency

The issue of paper money is the most important function of a central bank. The central bank is the authority to issue currency for circulation, which is a legal tender money. The issue department of the central bank has the responsibility to issue notes and coins to the commercial banks. The central bank regulates the credit and currency according to the economic situation of the country. In the methods of note issue, the central bank is required to keep a certain amount or a fixed proportion of gold and foreign securities against the total notes issued. The Reserve Bank of India is required to keep Rs.115 crore in gold and Rs.85 crore in foreign securities, butthere is no limit to the issue of notes. Having the monopoly of note issue, central bank gains advantages as

i) Ensuring uniformity of the notes issued and a proper control over the supply of money can be exercised.

ii) Bring stability in the monetary system and creates confidence among the public.

iii) Government is able to earn profits from printing currencies.

2. Banker, Agent and Adviser to the Government

The central bank of the country acts as the banker, fiscal agent and advisor to the government. Asa banker, it keeps the deposits of the central and state governments and makes payments on behalf of governments. It buys and sells foreign currencies on behalf of the government. It keeps the stockof gold of the country. As a fiscal agent, the bank makes short-term loans to the government for aperiod not exceeding 90 days. It floats loans and advances to the State governments and local bodies. It manages the entire public debt on behalf of the government. As an adviser, the bank gives useful advice to the governments on important monetary and economic problems like devaluation, foreign exchange policy and budgetary policy.

3. Custodian of cash Reserves of commercial banks

Commercial banks are required to keep a certain percentage of cash reserves with the central bank. On the basis of these reserves, the central bank transfers funds from one bank to another to facilitatethe clearing of cheques.

4. Custodian and Management of Foreign Exchange reserves

The central bank keeps and manages the foreign exchange reserves of the country. It

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fixes theexchange rate of the domestic currency in terms of foreign currencies.

If there are any fluctuations in the foreign exchange rates, it may have to buy and sell foreign currencies in order to minimize the instability of exchange rates.

4. Lender of the last resort

By giving accommodation in the form of re- discounts and collateral advances to commercial banks, bill brokers and their financial institutions, the central bank acts as the lender of the lastresort. The central bank lends to such institutions in order to help them when they are faced with difficult situations so as to save the financial structure of the country from collapse.

5. Clearing Function

The central bank acts as a „clearing house" for other banks and mutual obligations are settled through the clearing system. Since it holds cash reserves of commercial banks, it is easier for the central bank to act as a "clearing house".

6. Controller of credit

The most important function of the central bank is to control the credit creation power ofcommercial banks in order to control inflationary and adopts Quantitative methods and Qualitative (selective) methods. Quantitative methods aim at controlling the cost and quantity of credit by adopting i) bank rate policy ii) open market operations iii) variations in reserve ratios of commercial banks. Qualitative methods control the use and direction of credit. It involves i) regulation of margin requirements ii) regulation of consumer credit, iii) rationing of credit, iv) direct action by the centralbank, and v) moral suasion Besides the above functions, the central bank performs many additional functions. It has to study all problems relating to i) credit, ii) fluctuations in price level iii) fluctuations in foreign exchange value. It has to collect monetary and financial statistics, conduct research and provide information. It has to look after the matters relating to IMF and the World Bank. All together, the central bank is the financial and monetary guardian of the nation.

Quantitative or General Credit control methods

The important general methods of credit control are as follows:

1) Bank Rate (or) Discount Rate Policy

The rate of interest of every central bank is known as "Bank Rate". It is otherwise known as "discount rate" At this rate the central bank rediscounts bills of exchange and

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government securities held by the commercial banks. When the cash reservesof the commercial banks tend to fall below the legal minimum, the banks may obtain additional cash from the central bank either by rediscounting bills with the central bank or by borrowing from the central bank against eligible securities. The central bank charges interest rate for this service. The central bank controls credit by making variations in the bank rate. A rise in the bank rate makes borrowing costly from the central bank. So commercial banks borrow less and in turn they raise their lending rates to customers. This discourages business activity. Thereby there is contraction of demand for goods and services and ultimately fall in the price level. Therefore bank rate is raised to control inflation. In the opposite case, lowering the bank rate offsets deflationary tendencies.

2) Open Market Operations

Direct buying and selling of securities, bills, bonds of government as well as private financial institutions by the central bank, on its own initiative, is called open market operations. In periods of inflationary situation, the central bank will sell in the money market first class bills.Buyers of this bill say commercial banks make payments to the central bank. It reduces the sizeof the cash reserves held by the commercial bank with the central bank. Some banks are forcedto curtail lending. Thus, business activity based on bank loans and which is responsible for boom conditions are curtailed. In times of depression, the central bank will buy bills and securities from the commercial banks. The central bank will pay cash to the commercial banks for such purchases. Hence, the cashreserves of the commercial banks are increased. Thereby banks expand their loans resulting in the expansion of investment, employment, production and prices. Thus central bank through its open market operations influences business activity and economic conditions of the country.

3. Variable Reserve Ratio

Every commercial bank is required by law to maintain a minimum percentage of its time and demand deposits with the central Bank. The excess money remains with the commercial bank over and above these minimum reserves is known as the excess reserves. Commercial banks create credit only based on these excess reserves. Central bank may bring changes in reserve requirements.

Consequently, it will affect the amount of reserves that commercial bank must maintain as deposits with the central bank as well as the amounts available for lending or investing. For instance, when the central bank fixes the reserve requirement as 10 percent, a commercial bankwill have to maintain a cash reserve of Rs.100 for every deposit of Rs.1000 and hence it can lend only upto Rs.900. To check inflation the central bank may raise the

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cash reserve ratio from 10 percent to 15 percent. This will force the commercial banks to deposit additional 5 percent by reducing their amount available for lending. On the other hand, to check a deflation the central bank may reduce the reserve ratio from 10 percent to 7 percent. This will raise the excess cash withthe commercial banks; consequently credit will be expanded.

Qualitative or selective credit control

Qualitative methods of credit control mean theregulation and control of the supply of credit among its possible users. The aim of suchmethods is to channelise the flow of bank credit from speculative and other undesirablepurposes to socially desirable and economically useful uses. Important selective credit controls are given below.

a) Margin Requirements

The aim of this method is to prevent excessive use of credit to purchase securities by speculators. The central bank fixes minimum margin requirements on loans for purchasing securities. Suppose the central bank fixes a 30 percent as margin requirements, then for Rs.1000 worth of security, commercial bank may keep Rs.300 as margin and the remaining Rs.700 may be used for lending. If the central bank wants to curb speculative activities, it will raise the margin requirements. On the other hand, if it wants to expand credit, it reduces the margin requirements.

b) Regulation of consumer credit

Under this instrument, the central bank regulates the use of bank credit by consumers in order to buy durable consumer goods in installments. To achieve this, it adopts two devices

i) Minimum down payment

ii) Maximum periods of repayment.

c) Rationing of Credit

Credit rationing is employed to control and regulate the purpose for which credit is granted by the commercial banks. Credit rationing takes two forms i) variable portfolio ceilings, wherein central bank fixes ceiling on the aggregate portfolios of the commercial bank. They cannot advance loansbeyond this ceiling. ii) Variable capital assets ratio wherein the central bank fixes in relation to thecapital of a commercial bank to its total assets.

d) Direct Action

Direct action refers to "directives" of the central bank to enforce the commercial banks to follow a particular policy. The central bank gives direction to commercial banks in respect of

i) lending policies

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ii) the purpose for which advances may be made

iii) the margins to be maintained in respect of secured loans.

e) Moral suasion

Moral suasion implies persuasion and request made by the central bank to the commercial banks to follow the general monetary policy in the context of the current economic situation.

f) Publicity

The central bank publishes weekly or monthly or quarterly statements of the assets and liabilities of the commercial banks for the information of the public. It also publishes statistical data relating to money supply, prices, production, employment and of capital and money marketetc.

Nationalisation of Banks

The Indian banking system passed through a series of crises and hence its growth was very slow during the first half of the 20th century. But after Independence, the Indian banking systemrecorded rapid progress. This was due to planned economic growth, increase in money supply,growth of banking habit, setting up of the State Bank of India and its associate banks in the 1950s, the control and guidance by the Reserve Bank of India and above all nationalization of the 14 commercial banks in July 1969, and 6 more banks in 1980 by the Government. Prior to nationalization, it was believed by some economists that Indian commercial banking system did not play its role in the planned development of the nation. The banking system was controlled by the leading industrialists and business magnates. They used public funds to buildup private industrial empires. Small Industrial and business units were consistently ignored. Agricultural credit was never seriously considered. Therefore Government of India took over 14 commercial banks in July 1969 and 6 other banks in April 1980. The commercialbanking sector in India has within its fold the following banks.

a) The State Bank of India

b) The seven associated banks of State Bank of India.

c) Twenty nationalized Banks.

d) Indian joint stock commercial banks

e) Foreign banks functioning in India

f) Regional Rural Banks.

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Performance of Nationalized Banks

The most important benefit of nationalization of commercial banks was the achievement of homogeneity and strength as well as cohesion in the banking structure of India, affording a better environment for effectively implementing banking and monetary policies of the government. Theworking of the commercial banks after nationalization show that they have made a complete departure from the old conservative banking practices and moving towards the objectives set forthin various fields of their operations. They have made significant achievements in the sphere of "branch expansion", deposit mobilization, production-oriented financing, extension of credit to neglected sectors and creating new vistas in banking.

6. Monetary Policy

Quantitative credit control instruments

The basic goals of macroeconomic policy in most of the countries are full employment, price stability, rapid economic growth, balance of payments equilibrium and economic justice. Economic justice refers to equitable distribution of income. The government tries to achieve the goals through macroeconomic policy. Macroeconomic policy can be broadly divided into monetary policy and fiscal policy. Of course, the government follows other policies such as industrial policy, agricultural policy, tariff policy and so on. But we limit our discussion only to monetary policy and the fiscal policy. In the present chapter, we shall study the monetary policy with reference to our country. "Monetary policy is policy that employs the central bank"s control over the supply and cost of money as an instrument for achieving the objectives of economic policy" (Edward Shapiro).

Instruments of Monetary Policy

Roughly we may say that monetary policy is credit control policy. The instruments of credit control can be broadly divided into :

(1) Quantitative credit control measures ; and

(2) Selective credit control measures.

include bank rate policy, variation of cash reserve ratios and open market operations.

1. **Bank Rate :** The Bank rate is the minimum rate at which the central bank of a country

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willlend money to all other banks. Suppose, there is too much of money in circulation. Then the central bank should take some money out of circulation. It can do it by increasing the bank rate.When the bank rate goes up, the rates charged by other banks go up. The belief is that if the rate of interest goes up, businessmen will be discouraged to borrow more money and producers will borrow less money for investment. Generally, to control inflation, the central bank will increase the bank rate.

2. **Variation of cash Reserve Ratios :** The ability of a commercial bank to create credit depends upon its cash reserves. The central bank of a country has the power to vary the cash reserve ratios. During inflation, to check the sharp rise in commodity prices and to control credit, the central bank can make use of this weapon.

3. **Open Market Operations :** In India, the open market operations have been conducted in Central Government securities and State Government securities. The success of open market operations as a weapon of credit control, depends mainly on

(i) the possession by the central bank of adequate volume of securities ; (2) the presence of welldeveloped bill (securities) market ; and (3) stability of cash reserve ratios maintained by commercial banks. These things are missing to a great degree in India. So, open market operations have not become a powerful weapon of credit control in our country. They have been largely used in India more to assist the Government in its borrowing operations rather than controlling credit.

Selective credit controls

Selective credit controls can play an important role in an underdeveloped money market with a planned economy. Unlike the instruments of quantitative credit control, the selective instruments affect the types of credit extended by commercial banks. They not only prevent flow of credit intoundesirable channels, but also direct the flow of credit into useful channels. The Reserve Bank of India had started applying the selective credit controls since 1955. The weapons of selective creditcontrols include

(a) Fixing minimum margin of lending or for purchase of securities. (For example, shares or commodities like food grains and raw materials which are in short supply). In this case, the centralbank specifies the fraction of the purchase price of securities that must be paid in cash. Unlike general controls, selective controls make it possible for the central bank to restrain what is regardedas an unhealthy expansion of credit. (eg. for financing the purchase of securities or automobiles) ;

b) Ceiling on the amount of credit for expansion and

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c) Different rates of interest will be charged to encourage certain sectors and to discourage certain other sectors. In our country, the last weapon has been used especially, to encourage exports, agricultural production and production in small scale and cottage industries sector.

d) The central bank will persuade the commercial banks to follow certain policies through moral suasion.

Dear Money

When there is inflation in a country, the central bank tries to control it by following dear moneypolicy. The term "Dear Money" refers to a phase or policy when interest rates are high.

Cheap Money

"Cheap Money" denotes a phase in which loans are available at low rates of interest or a policywhich creates this situation. Cheap money policy is followed by a central bank during a periodof depression to increase the supply of money so as to stimulate investment.

Value of money

By "Value of Money" we mean the purchasing power of money. The purchasing power of money depends upon the price level. A general rise in the price level indicates a fall in the value of money and a general fall in prices indicates a rise in the value of money.

Inflation and Deflation

The terms „inflation" and „deflation" are not easy to define. Different economists have defined them in different ways. Crowther has given us the most simple and useful definition of these terms. According to Crowther, "Inflation is a state in which the value of money is falling, i.e, prices are rising". So it is generally regarded that during a period of inflation, the price level will rise. It is also described as a situation where too much money chases too few goods resulting in an abnormal increase of price level. Shapiro has defined inflation as "a persistent and appreciable rise in the general level of prices". And Harry Johnson has defined it as a "sustained rise in prices". However, we should remember one important point. That is, there can be inflation even without a rise in the price level. This is known as *„Repressed Inflation"*. Usually this happens during a war period. On account of many controls and rationing that exist during wartime, prices will be kept under check.But the moment controls are withdrawn, prices will go up. So the real test of inflation is neither an

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increase in the amount of money nor a rise in prices, but the appearance of abnormal profits. Whenever businessmen and producers make huge profits, it is a sign of inflation.

Types of Inflation

1. Demand – Pull Inflation :

It is loosely described as "too much money chasing too few goods". This refers to the situation where general price level rises because the demand for goods and services exceeds the supply available at the existing prices. *Creeping or Persistent inflation* : Since the end of world War II, i.e. since 1945, there has been a tendency for prices and wages to push one another upwards. This situation has been described as creeping or persistent inflation.

Runaway or Galloping or Hyper Inflation

This is a serious type of inflation. For example, it was experienced in Germany after World War I and in Hungary and China after World War II. In this situation, prices rise to a very great extent at high speed and high prices have to be paid even for cheap things. And money becomes quite worthless and new currency has to be introduced. This situation is known as galloping inflation or hyper-inflation.

2. Cost – Push Inflation

Cost – push inflation is induced by rising costs, including wages, so that rising wage and other costs push up prices. We can also speak of wage inflation or price inflation when we mean increase in wages or prices. **Deflation** : Crowther, defines deflation as a "state in which the value of money is rising, i.e., prices are falling". Both inflation and deflation refer to the movement of prices. Deflation is the opposite of inflation.

Generally inflation is a period characterized by rising activity and employment. But during deflation, there will be bad trade and unemployment. During deflation, since prices fall faster than costs, there will be heavylosses for producers and businessmen. There will not be profits in any branch of economic activity. So there will be a fall in investment. This results in unemployment. Both inflation and deflation are evils. There is nothing much to choose between them. While rising prices can be checked to some extent by the monetary policy of the government, the latter is of little help in raising the price level during deflation. It does not work. That is why during such periods, modern economists suggest that the State must play an active role in the economic field and step up economic activity by undertaking a series of public works programmes. "Wagecut" is sometimes recommended as a remedy for depression. But it is not a correct solution. It will only make matters worse

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6. Fiscal Policy

Definition

Economists have defined public finance differently. The following are some of the popular definitions: According to Dalton, "Public finance is concerned with the income and expenditure of public authorities and with the adjustment of the one with the other". Findlay Shirras says that, "Public finance is the study of the Principles underlying the spending and raising of funds by public authorities". To quote Lutz, "Public finance deals with the provision, custody, and disbursement of resources needed for the conduct of public or government functions". We may conclude from the above definitions that Public Finance or Fiscal Economics is concerned with the principles and practices of obtaining funds and spending the same for achieving the maximum social welfare and economic growth in the country.

Subject matter of public finance

The following subdivisions form the subject matter of public finance

1. Public expenditure
2. Public Revenue
3. Public debt
4. Financial administration and
5. Federal finance

1. Public expenditure

Since the modern government represents a welfare state, the responsibility of the government is to bring about maximum social welfare. In addition to this, it has to perform various other functions, which require heavy expenditures. We study in this sub-division, the fundamental principles governing the flow of government funds into different spending streams and the methods of incurring expenditure on the various activities.

2. Public Revenue

Public revenue means different sources of government‟s income. It deals with the methods of raising revenue for the government, principles of taxation and other related problems. Raising of tax revenue and nontax revenue is the subject matter of public revenue. Tax revenue deals with the kinds of taxes and the impact and incidence of various taxes. Non-tax revenue includes

i.) Commercial revenue (income earned through sale of goods and services and profits

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earned by public sector enterprises),

ii.) Administrative revenues (Fees, license fees, special assessments),

iii) Gifts and grants.

3. Public debt

The problem relating to the raising and repayment of public loans is studied under this sub-division. Borrowing by the government from the public is called public debt. In modern world, it is not possible for the government to meet all its expenditure through tax and non-tax revenue. Hence public revenue falls short of public expenditure. As a result, governments are forced to borrow from internal and external sources. In the case of internal debt, Government borrows from the people, commercial banks and the central bank. External debt includes borrowingfrom international monetary institutions like IMF and World Bank and also from foreign countries. The soundness of the borrowing policy of the governments and indication of the healthy directionof spending are examined under this sub-division.

4. Financial administration

Financial administration is concerned with the organisation and functioning of the government machinery that is responsible for performing various financial activities of the state. Preparing thebudget for the particular financial year is the master financial plan of the government. The various works, starting with the objectives of designing a budget, the methods of preparing it, presentationof the budget before the Parliament and State Assembly, passing or sanctioning by the Parliament,execution, auditing, implementation etc., constitute the subject matter of financial administration.

5. Federal finance

Federal finance is a part of the study of public finance. A federation is an association of two or more states. In a federal form of government, there are: Central, State, and local governments. The interrelationships between these forms of governments, and the problems related to them and the financial functions of all these units are studied under federal finance.

Meaning and definition of a tax

A tax is one of the important sources of public revenue. A tax is a compulsory charge or payment levied by the government on an individual or corporation. Therefore an element of compulsion is involved in taxation. Other sources of public revenue are excluded from this compulsory element. There is no direct give and take relationship between a taxpayer and the government.

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Definition of a tax

According to Prof. Seligman, "A tax is a compulsory contribution from the person to the State to defray the expenditure incurred in the common interest of all without any reference to the special benefits conferred". In the words of Dalton, "A tax is a compulsory contribution imposed by the public authority, irrespective of the exact amount of service rendered to the taxpayer, in return for which no specific and direct *quid pro quo* is rendered to the payer". From these definitions, it is clear that tax is a compulsory contribution. It means that the State has the right to tax. Refusal to pay the tax is punishable. The phrase „without *quid pro quo*‟ means the absence of direct and proportional benefit to the taxpayer from the government.

Canons of Taxation

Canons of taxation are considered as fundamental principles of taxation. Adam Smith laid down the following canons of taxation:

a) Canon of equity
b) Canon of certainty
c) Canon of convenience
d) Canon of economy

1. Canon of equity

This canon is also called the „ability to pay‟ principle of taxation. It means that taxes should be imposed according to the capacity of the tax payer. Poor should be taxed less and rich should be taxed more. This canon involves the principle of justice. All persons contribute according to theirability. As the cost of running the government should be equally borne by all, this canon is justified.

2. Canon of certainty

Every tax payer should know the amount of tax to be paid, when to be paid, and where to be paidand also should be certain about the rate of tax to make investment decisions.

3. Canon of convenience

Tax payment should be convenient and less burdensome to the tax payer. e.g. income tax collected at source, sales tax collected at the time of sales and land tax collected after harvest.

4. Canon of economy

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This canon signifies that the cost of collecting the revenue should be kept at the minimum possible level. The tax laws and procedures should be made simple, so as to reduce the expenses in maintaining people"s income tax accounts. ie. administrative expenditure to be kept at a minimum.

Kinds of tax:

Taxes are of different types. They are:

1. Direct and Indirect taxes.
2. Proportional, progressive, Regressive and digressive taxes.
3. Specific and advalorem taxes.
4. Value-added tax (VAT)
5. Single and multiple taxes.

1. Direct and Indirect taxes

According to Dalton, "A direct tax is one which is really paid by a person on whom it is imposed whereas an indirect tax, though imposed on a person, is partly or wholly paid by another". In the case of a direct tax, the tax payer who pays a direct tax is also the tax bearer. In the case ofindirect taxes, the taxpayer and the tax bearer are different persons.

Direct taxes

Direct taxes are collected from the public directly. That it is to say, these taxes are imposed on and collected from the same person. One cannot evade paying the tax if it is imposed on him. Income tax, wealth tax, corporate tax, gift tax, estate duty, expenditure tax are good examples of direct taxes.

Indirect taxes

Taxes imposed on commodities and services are termed as indirect taxes. There is a chance for shifting the burden of indirect taxes. The incidence is upon the person who ultimately pays it. Examples of indirect taxes are excise duties, customs duties and sales taxes (commodity taxes).

The classification of direct taxes and indirect taxes is based on the criterion of shifting of the incidence of tax. The burden of a direct tax is borne by the person on whom it is levied. For example, income tax is a direct tax. Its burden falls on the person who is liable to pay it to the Government. He cannot transfer the burden to some other person. An indirect tax is initially paid by one person but ultimately the burden of the tax is fully or partially borne by another person.

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Because there is a possibility of transfer of burden of an indirect tax. For example, the excise duty on a motor-bike is initially paid by the manufacturer. But he subsequently shifts this burden to the consumer by including the tax in the price of the bike. Roughly, we may say that the direct taxes are paid by the rich and the indirect taxes are paid by the poor.

Taxes of Central Government and State Governments

The financial system of India is federal in character. Therefore, the powers and functions to raise revenue are divided between central government and state and local governments as scheduled in the Indian Constitution. This division has been made to avoid any clash in financial, administrative and other areas.

Taxes of the central government

The main sources of tax and non-tax revenue of the central government are 1. Taxes on income (other than on agricultural income), 2. Corporate tax, 3. Expenditure tax, 4. Taxes on properties (Estate duties and Death duties), 5. Gift tax, 6. Wealth tax, 7. Taxation on capital gains, 8. Union excise duties, and 9.Customs duties (Import and Export duties). The sources of non-taxrevenue of the central government include

1. Fiscal services,
2. Receipts from interest on loans,
3. Dividend and profits,
4. General and administrative services,
5. Social and community services and
6. Economic services.

Taxes of the State Governments

Under the Constitution of India, only the State governments are provided with separate powers to raise revenue, while the Union territories are financed by the Central government directly. The main sources of tax and non-tax revenue are

1. Land revenue,
2. Taxes on the sale and purchase of goods except newspaper,
3. Taxes on agricultural income,
4. Taxes on land and building,
5. Succession and estate duties in respect of agricultural land,
6. Excise duty on alcoholic liquors and narcotics,

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7. Taxes on the entry of goods into a local area,

8. Taxes on mineral rights,

9. Taxes on the consumption of electricity

10. Taxes on vehicles, animals and boats,

11. Taxes on goods and passengers carried by road and inland water ways,

12. Stamp duties, court fees and registration,

13. Entertainment tax,

14. Taxes on advertisements other than those in newspaper,

15. Taxes on trade, profession and employment,

16. Income from irrigation and forests,

17. Grants from the central government and

18. Other incomes such as income from registration and share in the income-tax, excise and estate duties and debt services, loans and overdrafts.

Progressive, Proportional, Regressive and Digressive taxes

Direct taxes can also be classified on the basis of the degree of progressiveness or distribution of their burden on the taxpayers. The ability of the people to pay a tax is measured on the basis of property, income, size of the family and consumption etc. The ability to pay in practice implies tax base and tax rate. Tax base denotes the income, property and expenditure on the basis of which ability to pay the tax is measured. Rate structure indicates equalisation of burden of taxation. Tax rate is the percentage of tax levied per unit of tax base.The total amount of tax is equal to the tax base multiplied by tax rate.

On the basis of rate structure, taxes are classified as follows:

a) Proportional tax

In the case of a proportional tax, tax rate remains constant regardless of whether the tax base is large or small. It means uniform tax rate is imposed on the rich as well as the poor. The tax paid by the people is fixed in proportion to their income and wealth and other tax bases.

b) Progressive tax

In the case a progressive tax, the tax rate increases as the tax base increases. With the increase in income, a taxpayer has to pay a higher tax. For example, in the case of income tax, exemption limit and tax slabs are characterised by the income tax structure formulated by the government of India. As each income slab increases, there is an increase in the rates of tax.

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c) **Regressive tax**

When the tax liability on income falls with the increase in the tax payer"s income, it is termed as a regressive tax. Here, the tax rate decreases as the tax base increases. Under this tax system, the poorer sections of the society are taxed at higher rates than the richer sections and hence this tax is not just or equitable.

d) **Digressive tax**

Digressive tax is a blend of progressive tax and proportional tax. The rate of taxation increases upto a point. After that limit, a uniform rate is charged. Here the rate of tax does not increase in thesame proportion as the increase in income. Under this tax system, the higher income groups makeless sacrifice than the lower income groups.

Budget

Meaning: Government"s revenue and expenditure decisions are presented in the budget. Budget, being an essential and important element of planning and development, provide the specific development objectives to be pursued and the required policy direction. They are necessary because income and expenditure do not occur simultaneously. Thus, „budget" has been defined as the annual financial statement of the estimated receipts and proposed expenditure of the government in a financial year, usually April 1 to March 31 of the next year. The term budget is derived from the French word „Bougette". It means "small bag". As such, the Finance minister of a country carries a bag containing abstracts of budget papers while presenting the budget in the Parliament or a State Legislature. The governments, both Union and State, prepare their budget every financial year. Government budget indicates the probable income and expenditure of the government, the financial policies, taxation measures, investment opportunities, extent of saving, utilization of resources, mobilization of capital etc.

Kinds of Budget

Balanced budget and unbalanced budget

1) **Balanced Budget**

A balanced budget is that, over a period of time, revenue does not fall short of expenditure. In other words government budget is said to be balanced when its tax revenue and expenditure are equal.

2) **Unbalanced Budget (Surplus or deficit)**

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An unbalanced budget is that, over a period of time, revenue exceeds expenditure or expenditure exceeds revenue. In other words, the government"s income or tax revenue and expenditure are not equal. When there is an excess of income over expenditure, it is called a surplus budget. On the other hand, when there is an excess of expenditure over income, it is a case of deficit budget. Classical economists advocated balanced budget. But it is not always helpful in achieving and sustaining economic growth. Modern economists argue that an unbalanced budget is very useful for achieving and maintaining economic stability.

Revenue Budget and Capital Budget

Budgeting is the most important constituent of the financial administration. Preparation of the budget is one of the main operations of budgeting. It is mandatory for the government to make a statement of estimated receipts and expenditures which must be laid before the Parliament every financial year. It has to distinguish expenditure on revenue account and capital account from other expenditures. So government budget comprises Revenue Budget and Capital Budget.

Revenue Budget :

Revenue budget consists of revenue receipts of the government (tax revenue and non-tax revenue) and the expenditure met from these revenues. Expenditures which do not result in creation of assets are called revenue expenditure. (e.g. current revenues and current expenditure for normal functioning of the Government departments, interest charges on debt incurred by Govt. and other non developmental expenditure).

Capital budget :

Majority of the government expenditures form the capital expenditure. Capital budget consists of receipts and payments. Capital receipts are loans raised by government from the public which are called market loans, borrowings from the RBI, sale of treasury bills, loans received from foreign governments etc. Capital payments are expenditure on assets creation such as land, buildings, machinery, equipment investment loans to government companies and state governments and other developmental expenditures.

Performance budgeting

The process of fund allocation of governments in various countries has been changed from traditional expenditure budgeting to new forms of rationalistic budgeting, such as performance budgeting, programme budgeting and zero based budgeting. Under performance budgeting, various activities of the government are identified in the budget both in financial

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and physicalterms. This is necessary to ascertain the relationship between input and output and to assess theperformance in relation to cost. Performance budgeting is conceived as a system of presenting public expenditure in terms of distinguishable divisions such as government functions, programmes, activities and projects; such presentation would reflect the cost of running the government. Under this technique, funds are granted for carrying out specific amount of work identified under a particular division. A cost-benefit approach is employed which facilitates meaningful and purposeful allocation of funds. This method of budget technique promotes cost consciousness as well as cost efficiency and suggests corrections wherever required in the process of allocation of funds.

Zero based budgeting

Traditional technique of budgeting have been found to be inadequate for the reason that, the previous year‟s cost level is taken as the base for current year‟s budget. The traditional methods have not completely addressed the problem of efficiency in the matter of allocation of funds for various divisions. There is therefore a need for a new technique of budgeting which devices and uses a meaningful base for budgeting. Zero Based Budgeting is one such technique of budgeting. In zero based budgeting, every year is considered as a new year thus providing a connecting link between the previous year and the current year. The past performance and programmes are not taken into account. The budget is viewed as entirely a fresh and whole fiscal initiative i.e. from zero bases. Zero based budgeting evaluates and prioritizes the programmes of action at different levels. Each department has to justify its budget from its perspectives; evaluatin feasible alternatives, before final selection and execution, the funds will be allocated for the selected programmes.

7. Fiscal policy

Meaning

Fiscal policy is the set of principles and decisions of a government regarding the level of public expenditure and mode of financing them. It is about the effort of government to influence the economy‟s output, employment and prices by altering the level of public expenditure, taxation and public debt. Arthur Smithies points out, "Fiscal policy is a policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment".

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The Importance of Fiscal Policy

The significance of this policy was not at all recognized by economists before the publication of Keynes‟s General Theory of Employment, Interest and Money. Keynes gave the concept of fiscal policy new meaning and operation of the public finance a new perspective. He made it clear that taxation, public spending and public debt are the effective instruments of public policy capable of determining the level of output and employment. The importance of fiscal policy in modern economies arises from the fact that the State under democracy is called upon to play an active and important role in promoting

1. To promote development in the private sector

In a mixed economy, private sector forms an important constituent of the economy. In spite ofthe growing importance of the public sector in accelerating the process of economic development, the interest of the private sector cannot be neglected. Therefore rebates, reliefs and liberal depreciation allowances may be granted to boost the private sector.

2. To bring about an optimum utilization of resources

The above objective can be achieved through proper allocation of resources. We must direct investment in the desirable channels both in the public and private sectors by providing suitable incentives. Productive resources are, within limits capable of being used in various ways, which may accelerate economic growth. The available resources must find their way into the sociallynecessary lines of development.

3. To restrain inflationary pressures in the economy to ensure economic stability

The fiscal policy must be used as an instrument for dealing with inflationary or deflationary situations. One way to achieve this is to devise a tax structure, which will automatically counter the economic disturbances as they arise. The second is to make changes in the tax system in order to deal with inflationary or deflationary situations. In countries like India, it is through the direction of the public expenditure rather than taxation that more effective action can be taken to remove the effect of a deflationary spiral. In terms of inflation, anti-inflationary taxes such as excess profit tax and commodity taxes on articles of both general and luxury consumption can be imposed.

4. To improve distribution of income and wealth in the community for lessening economic inequalities

The national income should be properly distributed so that the fruits of development are fairly shared by all people. Equality in income, wealth and opportunities must form an integral part of economic development and social advance. Moreover, redistribution of income in favour of the poorer sections of the society is essential. This can be achieved

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through taxation. We can also achieve this through an increase in public expenditure for promoting welfare to the less privileged class. Expenditure on agriculture, irrigation, education and health and medical expenses will improve the economic conditions of the weaker sections of the society. Fiscal policy can affect total spending. (aggregate demand determinant) in two ways. The first is the direct change in total spending brought about by the government increasing or decreasing its own expenditure. And the second one is increasing or reducing private spending by varying itsown tax revenue.

5. To obtain full employment and economic growth

The fiscal policy to achieve full employment and to maintain stable price in the economy has been developed in the recent past. The ineffectiveness of monetary policy as a means to remove unemployment during the Great Depression paved the way for the development of fiscal policy in achieving this objective. For accelerating the rate of growth, allocation of higher proportion of the fully employed resources is needed. Those activities increase the productive capacity ofthe economy. Therefore fiscal policy is used through its tax instrument to encourage investment and discourage consumption so that production may increase. It is also necessary to increase capital formation by reducing the high income tax on personal income. To increase employment, the state expenditure should be directed towards providing social and economic overheads. The state should undertake local public works of community development involvingmore labour and less capital per head.

6. Fiscal policy and capital formation

Fiscal policy such as taxes, tariffs, transfer payments, rebate and subsidies are expected to spur long run economic growth through increased capital formation. Capital formation is considered an important determinant of economic growth. The economic theory tells us that the optimal amountof capital formation serves a useful key to economic growth in developing economies. At the same time, the economic distortions brought about by lack of adequate fiscal incentives can cause capitalformation to fall short of the socially optimal level.

Limitations to fiscal policy

Though the fiscal policy has an important place in economic development and in particular, in thestepping up of saving and investment both in public and in private sectors, it has the following limitations.

1) Size of fiscal measures

The budget is not a mere statement of receipts and revenues of the government. It explains and shapes the economic structure of a country. When the budget forms a small part

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of the national income in developing economies, fiscal policy cannot have the desired impact on the economic development. Direct taxation at times become an instrument of limited applicability, as the vast majority of the people are not covered by it. Further, when the total tax revenue forms a smaller portion of the national income, fiscal measures will not step up the sagging economy requiring massive help.

2. Fiscal policy as ineffective anti-cyclical measure

Fiscal measures- both loosening fiscal policy and tightening fiscal policy- will not stimulate speedy economic growth of a country, when the different sectors of the economy are not closelyintegrated with one another. Action taken by the government may not always have the same effect on all the sectors. Thus we may have for instance the recession in some sectors followedby a rise in prices in other sectors. An increasing purchasing power through deficit financing, a policy advocated by J.M. Keynes in 1930s may not have the effect of reviving the recession hit economies, but merely result in a spiralling rise in prices.

3. Administrative delay

Fiscal measures may introduce delay, uncertainties and arbitrariness arising from administrative bottlenecks. As a result, fiscal policy fails to be a powerful and therefore a useful stabilization policy.

Other Limitations

Large scale underemployment, lack of coordination from the public, tax evasion, low tax baseare the other limitations of fiscal policy.

NITI AAYOG

The Planning Commission which has a legacy of 65 years has been replaced by the NITI Aayog. The utility and significance of the Planning Commission had been questioned for a longer period. The replacement seems to be more relevant and responsive to the present economic needs and scenario in the country.

- **NITI Aayog Chairman** – Narendra Modi
- **NITI Aayog Vice-Chairman** – Shri Suman Bery (May 1, 2022 – present) is the current Vice Chairman of the NITI Aayog.

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Latest News about NITI Aayog:

1. Shri Parameswaran Iyer joined NITI Aayog as Chief Executive Officer on 10th July 2022.
2. Dr. Arvind Virmani joined NITI Aayog as a full-time Member with effect from 16th July 2022.
3. 'One District, One Product Policy' – It is a recent agenda of the Niti Aayog Governing Council. It intends to boost export at the district level.
4. Niti Aayog to commission a study on the select judgments and verdicts of the Supreme Court and National Green Tribunal on the economy of India.
5. National Action Plan for Migrant Workers is underway and for the same Niti Aayog is a responsible authority.
6. The NITI Aayog has framed a model Act on conclusive land titles that it hopes will be adopted and implemented by states. The aim is to facilitate easy access to credit to farmers and reduce a large number of land-related litigations, besides enabling transparent real estate transactions and land acquisition for infrastructure developments.
7. Recently the NITI Aayog vice-chairman mentioned that the Government will introduce the production-linked incentive (PLI) scheme for more sectors to boost domestic manufacturing. The objective of the PLI scheme is to incentivize investors in this country to put up globally comparable capacity in scale and competitiveness. The Government of India has already introduced the PLI scheme for pharmaceutical, medical devices, mobile phones and electronic manufacturing companies. It is now considering extending the scheme to other sectors as well.

NITI Aayog Evolution

The NITI Aayog was formed on January 1, 2015. In Sanskrit, the word "NITI" means morality, behaviour, guidance, etc. But, in the present context, it means policy and the NITI stands for **"National Institution for Transforming India"**. It is the country's premier policy-making institution that is expected to bolster the economic growth of the country. It aims to construct a strong state that will help to create a dynamic and strong nation. This helps India to emerge as a major economy in the world. The NITI Aayog's creation has two hubs called **"Team India Hub"** and "**Knowledge and Innovation Hub"**.

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1. Team India: It leads to the participation of Indian states with the central government.
2. The Knowledge and Innovation Hub: it builds the institution's think tank capabilities.

NITI Aayog is additionally creating itself as a State of the Art Resource Center, with the essential resources, knowledge, and skills that will empower it to act with speed, advance research and innovation, bestow crucial policy vision to the government and manage unforeseen issues. The reason for setting up the NITI Aayog is that people had expectations for growth and development in the administration through their participation. This required institutional changes in administration and active strategy shifts that could seed and foster substantial scale change.

Objectives of NITI Aayog

1. The active participation of States in the light of national objectives and to provide a framework 'national agenda'.
2. To promote cooperative federalism through well-ordered support initiatives and mechanisms with the States on an uninterrupted basis.
3. To construct methods to formulate a reliable strategy at the village level and aggregate these gradually at higher levels of government.
4. An economic policy that incorporates national security interests.
5. To pay special consideration to the sections of the society that may be at risk of not profiting satisfactorily from economic progress.
6. To propose strategic and long-term policy and programme frameworks and initiatives, and review their progress and their effectiveness.
7. To grant advice and encourage partnerships between important stakeholders and national-international Think Tanks, as well as educational and policy research institutions.
8. To generate knowledge, innovation, and entrepreneurial support system through a shared community of national and international experts, etc.
9. To provide a platform for the resolution of inter-sectoral and inter-departmental issues to speed up the accomplishment of the progressive agenda.
10. To preserve a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their distribution to participants.

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11. To effectively screen and assess the implementation of programmes and initiatives, including the identification of the needed resources to strengthen the likelihood of success.

12. To pay attention to technology improvement and capacity building for the discharge of programs and initiatives.

13. To undertake other necessary activities to the implementation of the national development agenda, and the objectives.

Verticals of Niti Aayog

The supportive bodies or verticals of Niti Aayog help in smooth functioning of the requisite tasks by the organization.

Niti Aayog has the following verticals under it:

- Administration and Support Units
- Agriculture and Allied Sectors
- Aspirational Districts Programme Cell
- Communication and Social Media Cell
- Data Management and Analysis, and Frontier Technologies
- Economics and Finance Cell
- Education
- Governance and Research
- Governing Council Secretariat and Coordination
- Industry-I
- Industry-II
- Infrastructure-Connectivity
- Infrastructure-Energy
- Micro, Small and Medium Enterprises
- Natural Resources and Environment, and Island Development
- Project Appraisal and Management Division
- Public–Private Partnership
- Rural Development
- Science and Technology
- Social Justice and Empowerment, and Voluntary Action Cell
- Social Sector-I (Skill Development, Labour and Employment, and Urban Development)
- Social Sector-II (Health and Nutrition, and Women and Child Development)

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- State Finances and Coordination
- Sustainable Development Goals
- Water and Land Resources

7 pillars of effective governance envisaged by NITI Aayog

The NITI Aayog is based on the 7 pillars of effective Governance. They are

1. Pro-people: it fulfils the aspirations of society as well as individuals
2. Pro-activity: in anticipation of and response to citizen needs
3. Participation: involvement of the citizenry
4. Empowering: Empowering, especially women in all aspects
5. Inclusion of all: inclusion of all people irrespective of caste, creed, and gender
6. Equality: Providing equal opportunity to all especially for youth
7. Transparency: Making the government visible and responsive

NITI Aayog Composition

The NITI Aayog will comprise the following:

1. **Prime Minister** of India is the Chairperson
2. **Governing Council** consists of the Chief Ministers of all the States and Lt. Governors of Union Territories in India.
3. **Regional Councils** will be created to address particular issues and possibilities affecting more than one state. These will be formed for a fixed term. The Prime Minister will summon it. It will consist of the Chief Ministers of States and Lt. Governors of Union Territories. These will be chaired by the Chairperson of the NITI Aayog or his nominee.
4. **Special invitees:** Eminent experts, specialists with relevant domain knowledge, which the Prime Minister will nominate.
5. The full-time organizational framework will include, in addition to the Prime Minister as the Chairperson:
    1. Vice-Chairperson (appointed by the Prime Minister)
    2. Members:
        - Full-time
        - Part-time members: Maximum of 2 members from foremost universities, leading research organizations, and other innovative organizations in an ex-officio capacity. Part-time members will be on a rotational basis.

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3. Ex Officio members: Maximum of 4 members of the Council of Ministers which is to be nominated by the Prime Minister.
4. Chief Executive Officer: CEO will be appointed by the Prime Minister for a fixed tenure. He will be in the rank of Secretary to the Government of India.

NITI Aayog – Achievements

The latest report of 2022-23 details the following initiatives and achievements of NITI Aayog:

- The Agriculture Vertical in NITI Aayog organised a national-level workshop on "Innovative Agriculture" on April 25, 2022, as part of Azadi ka Amrit Mahotsav in Vigyan Bhawan, New Delhi.
- More than 1,250 participants from Central Ministries, State Governments, industry, farmers, academic and research institutions, Krishi Vigyan Kendras (KVKs), NGOs, and international organisations joined the workshop. The workshop was also streamed live on YouTube.
- NITI Aayog organized a three-week-long virtual fintech summit – 'Fintech Open', from 7th to 28 February 2022.
- The Fintech Open brought together regulators, fintech professionals and enthusiasts, industry leaders, the start-up community, and developers for collaboration, idea exchange, and innovation.

The report of 2019-20 mentions the achievements of Niti Aayog:

1. Monitoring and Analysing Food and Agricultural Policies (MAFAP) program in India – It is a collaborative research project between Niti Aayog and the United Nations' Food and Agriculture Organization (FAO).
    - It aims to monitor, analyze and reform food and agricultural policies.
    - The first phase of the MAFAP program ran between 23rd September and 31 December 2019.
    - National Agriculture Price Policy and National Food Security Policy were reported for selected agricultural product marketing committees and districts.
    - The second phase of the MAFAP program is scheduled between 1st January 2020 and 31st December 2021.
2. The Niti Aayog governing council promoted Zero Budget Natural Farming.
3. Additionally, natural farming is being promoted as the 'Bhartiya Prakritik Krishi Paddhati' program under Paramparagat Krishi Vikas Yojana (PKVY).

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4. Village Storage Scheme has been conceptualized. Similarly, Union Budget 2021 has proposed Dhaanya Lakshmi Village Storage Scheme, yet to be implemented.

Documents Published by NITI Aayog

The documents published by NITI Aayog are as follows:

1. Fifteen-Year Vision,
2. Seven-Year Strategy and
3. Three-Year Action Agenda.

The documents containing the Fifteen-Year Vision and Seven-Year Strategy are currently under preparation at the NITI Aayog.

NITI Aayog Three-Year Action Agenda

- The Three-Year Action Agenda is a NITI Aayog document for the period of 2017-18 to 2019-20.
- This document is being published to recommend policy changes and programmes for action from 2017-18 to 2019-20.
- The Action Agenda has been prepared as an integral part of the exercise leading to the Vision and Strategy document. It has been fast-tracked and released first, keeping in view that with the start of the fiscal year 2016-17, it is of immediate relevance for policy implementation.
- The Three-Year Action Agenda offers ambitious proposals for policy changes within a relatively short period.

Finance Commission of India

What is the Finance Commission of India?

Finance Commission is a constitutional body for the purpose of allocation of certain revenue resources between the Union and the State Governments. It was established under Article 280 of the Indian Constitution by the Indian President. It was created to define the financial relations between the Centre and the states. It was formed in 1951.

Shri Ajay Narayan Jha recently joined the Fifteenth Finance Commission as its member. The 15th Finance Commission has released a report titled ‘Finance Commission in COVID Times’ on 1st February 2021.

Constitution

- President after two years of the commencement of Indian Constitution and thereafter every 5 years, has to constitute a Finance Commission of India.

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- It shall be the duty of the Commission to make recommendations to the President in relation to the:
  - the distribution between the Union and the States of the net proceeds of taxes which are to be, or maybe, divided between them and the allocation between the States of the respective shares of such proceeds;
  - the principles which should govern the grants in aid of the revenues of the States out of the Consolidated Fund of India;
  - any other matter referred to the Commission by the President in the interests of sound finance
  - The Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them

Note: President can also constitute Finance Commission before the expiry of five years as he considers necessary

Article 281 of the Indian Constitution

It is related to the recommendations of the Finance Commission:

- The President has to lay the recommendation made by Finance Commission and its explanatory memorandum before each house of Parliament

Who Constitutes Finance Commission of India?

President of India constitutes the Finance Commission every five years or on time considered necessary by him.

What is the composition of Finance Commission of India?

Finance Commission Chairman and Members

- Chairman: Heads the Commission and presides over the activities. He should have had public affairs experience.
- Four Members.
- The Parliament determines legally the qualifications of the members of the Commission and their selection methods.

Qualifications of Finance Commission Chairman and Members

- The 4 members should be or have been qualified as High Court judges, be knowledgeable in finance or experienced in financial matters and are in administration, or possess knowledge in economics.
- All the appointments are made by the President of the country.
- Grounds of disqualification of members:

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- found to be of unsound mind, involved in a vile act, if there is a conflict of interest
- The tenure of the office of the Member of the Finance Commission is specified by the President of India and in some cases, the members are also re-appointed.
- The members shall give part-time or service to the Commission as scheduled by the President.
- The salary of the members is as per the provisions laid down by the Constitution.

What are functions of the Finance Commission of India?

Functions of Finance Commission

The Finance Commission makes recommendations to the president of India on the following issues:

- The net tax proceeds distribution to be divided between the Centre and the states, and the allocation of the same between states.
- The principles governing the grants-in-aid to the states by the Centre out of the consolidated fund of India.
- The steps required to extend the consolidated fund of a state to boost the resources of the panchayats and the municipalities of the state on the basis of the recommendations made by the state Finance Commission.
- Any other matter referred to it by the president in the interests of sound finance.
- The Commission decides the basis for sharing the divisible taxes by the centre and the states and the principles that govern the grants-in-aid to the states every five years.
- Any matter in the interest of sound finance may be referred to the Commission by the President.
- The Commission's recommendations along with an explanatory memorandum with regard to the actions done by the government on them are laid before the Houses of the Parliament.
- The FC evaluates the rise in the Consolidated Fund of a state in order to affix the resources of the state Panchayats and Municipalities.
- The FC has sufficient powers to exercise its functions within its activity domain.
- As per the Code of Civil Procedure 1908, the FC has all the powers of a Civil Court. It can call witnesses, ask for the production of a public document or record from any office or court.

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Advisory Role of Finance Commission

The recommendations made by the Finance Commission are of an advisory nature only and therefore, not binding upon the government. It is up to the Government to implement its recommendations on granting money to the states. To put it in other words, 'It is nowhere laid down in the Constitution that the recommendations of the commission shall be binding upon the Government of India or that it would amount to a legal right favouring the recipient states to receive the money recommended to be provided to them by the Commission.

Finance Commission List

Finance Commissions list year-wise are given in the table below:

Finance Commission	Chairman	Year of Appointment
First	K.C. Neogy	1951
Second	K. Santhanam	1956
Third	A.K. Chanda	1960
Fourth	Dr. P.V. Rajamannar	1964
Fifth	Mahavir Tyagi	1968
Sixth	Brahamananda Reddy	1972
Seventh	J.M. Shelat	1977
Eighth	Y.B. Chavan	1982
Ninth	N.K.P. Salve	1987
Tenth	K.C. Pant	1992
Eleventh	A.M. Khusro	1998
Twelfth	Dr. C. Rangarajan	2002
Thirteenth	Dr. Vijay Kelkar	2007
Fourteenth	Y.V. Reddy	2013
Fifteenth	N.K Singh	2017

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What are the 3 Types of GST?

GST

Goods and Services Tax (GST) was introduced by the Government of India to boost the economic growth of India. GST is considered to be the biggest taxation reform in the history of Indian economy. It was introduced to save time, cost and effort. Goods and Services Tax (GST) Act came into effect in 2017. In order to address the complex system in India, the Government introduced 3 types of GST which are given below.

1. CGST (Central Goods and Service Tax)
2. SGST(State Goods and Service Tax)
3. IGST(Integrated Goods and Services Tax)

As per 2016 GST regime, Union Territory Goods and Service Tax (UTGST) was also introduced to account for all the taxations in the Union Territories of India. The power to make any changes in the GST law is in the hands of GST Council. GST Council is headed by the Finance Minister. One hundred and first amendment act, 2016 introduced the GST in India from July 2017.

What is Central Goods and Services Tax (CGST)?

Revenue under CGST is collected by the Central Government. CGST subsumes the below given central taxations and levies.

1. Central Excise Duty
2. Services Tax
3. Central Sales Tax
4. Excise Duty
5. Additional Excise Duties Countervailing Duty (CVD)

What is State Goods and Services Tax (SGST)?

Revenue under SGST is collected by the State Government. SGST subsumed the following state taxations.

1. Luxury Tax
2. State Sales Tax
3. Entry tax
4. Entertainment Tax
5. Levies on Lottery

Who Collects IGST (Integrated Goods and Services Tax)?

IGST is charged when there is movement of goods from one state to another state.

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The revenue will be collected by the central government and accordingly will be shared between the Union and states in the manner prescribed by Parliament or GST Council.

Latest Context on Goods and Services Tax-

The several States have made clear that the onus is on the Centre to borrow from the market to make good any shortfall in the Compensation Fund. They stressed that the States had agreed to the implementation of the GST only on the basis of the "unequivocal commitment given by the Government of India to compensate the States for any revenue loss".

Observing that States had not only suffered severe losses in revenue in the wake of the pandemic but had also been at the forefront of the battle to prevent the spread of the disease. Hence, any delay in ensuring the compensation payments would compromise essential capital spending by the States to restart the economy effectively.

What is GST Compensation?

1. The Constitution (One Hundred and First Amendment) Act, 2016, was the law that created the mechanism for levying a nationwide GST.
2. Into this law there is a provision to compensate the States for loss of revenue arising out of implementation of the GST. The adoption of the GST was made possible by the States ceding almost all their powers to impose local-level indirect taxes and agreeing to let the prevailing multiplicity of imposts be subsumed under the GST.
3. While the States would receive the SGST (State GST), and a share of the IGST (Integrated GST), it was agreed that revenue shortfalls arising from the transition to the new indirect taxes regime would be made good from a pooled GST Compensation Fund for a period of five years that is set to end in 2022.
4. This corpus in turn is funded through a compensation cess that is levied on so-called 'demerit' goods. The computation of the shortfall is done annually by projecting a revenue assumption based on 14% compounded growth from the base year's (2015-2016) revenue and calculating the difference between that figure and the actual GST collections in that year (as spelt out in Section 7 of the GST (Compensation to States) Act, 2017).
5. For the 2020-21 fiscal year, the revenue shortfall has been anticipated at ₹3 lakh crore, with the Compensation Fund expected to have only about ₹65,000 crores through cess accruals and balance to pay the compensation to the States.

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Features of GST

- **Applicable On the supply side:** GST is applicable on 'supply' of goods or services as against the old concept on the manufacture of goods or on sale of goods or on provision of services.
- **GST rates to be mutually decided:** CGST, SGST & IGST are levied at rates to be mutually agreed upon by the Centre and the States. The rates are notified on the recommendation of the GST Council.

What is the GST Council?

- Article 279A – GST Council to be formed by the President to administer & govern GST. It's Chairman is Union Finance Minister of India with ministers nominated by the state governments as its members.
- The council is devised in such a way that the centre will have 1/3rd voting power and the states have 2/3rd.
- The decisions are taken by 3/4th majority.

- **Multiple Rates:** Initially GST was levied at four rates viz. 5%, 12%, 16% and 28%. The schedule or list of items that would fall under these multiple slabs are worked out by the GST council.
- **Destination-based Taxation:** GST is based on the principle of destination-based consumption taxation as against the present principle of origin-based taxation.
- **Dual GST:** It is a dual GST with the Centre and the States simultaneously levying tax on a common base. GST to be levied by the Centre is called Central GST (CGST) and that to be levied by the States is called State GST (SGST).
    - Import of goods or services would be treated as inter-state supplies and would be subject to Integrated Goods & Services Tax (IGST) in addition to the applicable customs duties.

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8. Foreign Trade

Globalization

The term "Globalization" means the integration of the economy of each country with the world economy. The essence of globalization is the increasing degree of openness in respect of international trade, international investment and international finance. In other words, globalization is the process of transformation of the world into a single integrated economicunit. In a global economy, all the barriers on the flow of trade in goods and services and investment across the national frontiers are removed. According to Guy Brainbant, the process of globalisation not only includes opening up of world trade, development of advanced means of communication, internationalisation of financial markets, growing importance of MNC's, population migrations and more generally increased mobility of persons, goods, capital, data and ideas but also infections, diseases and pollution.

The process of globalization underlie following trends.

1. Spread of international trade.
2. Increasing migration of people.
3. Increasing flow of money or means of payments.
4. Increased flow of finance capital.
5. Emergence of more and more transnational companies and multi national companies.
6. Increasing trade of technology between different countries.
7. Rapid spread of print, electronic and communication media.
8. Growth in trade and production of services of all kinds including education.

Liberalization

India opened up the economy during early 1991 following a major crisis that led by a foreign exchange crunch with reserves which could hardly finance inputs for two weeks in India. The crisis has dragged the economy close to defaulting on loans. The credit rating of India had gone down and non-resident Indians (NRIs) had started withdrawing their deposits in foreign currency and the country was on the verge of default with regard to the payments of short -term credits incurred from foreign financial institutions. Hence, drastic policy measures were introduced on the domestic and external sectors to address all these issues. All these policy measures were partly prompted by the immediate needs and partly by the demand of the multilateral organisations like World Bank and International Monetary Fund (IMF). The liberalised policy regime rapidly pushed forward in favour of a more open and

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market oriented economy.

Policy Measures of Liberalisation

Major policy measures have been launched as a part of the liberalisation, privatisation and globalisation (LPG) programmes. The government announced the devaluation of rupee by about 20% in July 1991, new industrial policy, new trade policy in 1991, and a new export and import policy were also announced. Other measures followed are scrapping of the industrial licensing regime, reduction in the number of areas reserved for the public sector, amendment of the Monopolies and the Restrictive Trade Practices Act, withdrawal of many governmental controls, start of the privatisation programme, sharp reduction in tariff rates, change over to market determined exchange rates,many fiscal and financial sector reforms. All these measures have been grouped together under 'New Economic Policy' (NEP).

Over the years there has been a steady liberalisation of the current account transactions, more and more sectors opened up for foreign direct investments and portfolio investments facilitating entry of foreign investors in telecom, roads, ports, airports, insurance and other majorsectors. Liberalisation, privatisation and globalisation in the form of increased integration of India with the global economy through trade and investment since early nineties are some of the major reasons for the high level of economic growth in recent years. Despite this progress, unemployment, poverty, inequality and low level of human development still remains to be the most serious development challenges to be reckoned with.

Foreign Investment

Foreign investment plays a very important role in the new economic policy (NEP) launched in India to encounter the economic crisis of ninety. The main objective of NEP has been to achieve a higher level of economic growth. The strategies that were adopted as the measures for the development of the economy were devaluation, restrictive monetary target, minimization of the physical deficit, trade liberalization, privatization ofindustrial sectors and opening of the economy for foreign investment and competition. Among them foreign investment plays a most vital role. The inflow of foreign investment was encouraged to bridge the investment gap particularly in the industrial sector. Foreign investment was supposed to bring technology, marketing enterprise, managerial techniques and new possibilities of import promotion. For promoting foreign investment in high priority industries and advanced technology, it was decided to provide approval for direct foreign investment upto 51% of

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foreign equity (earlier 40% in such industries). This change was expected to make Indian policy on foreign investment more transparent. Such a framework would make it easy for foreign companies to invest in India. The NEP 1991 can be regarded asminor revolution as far as decisions concerning foreign investment and foreign technology agreements are concerned. The various changes in the foreign investment policy can be broadly classified into four categories.

1) *Choice of Product*: The number of products in which foreign investment is freely permitted has been significantly increased.

2) *Choice of Market*: The foreign investors are free now to compete with the domestic producers in the Indian market.

3) *Choice of Ownership Structure*: In most cases, the foreign investor is free to own a majority share in equity.

4) *Simplification of Procedures*: Foreign direct investment (FDI) flows through three different routes.

The first is with automatic approval by the Reserve Bank of India. The second route for foreign direct investment is from multinational companies on their Indian partners who want to invest in an industry outside these 35 sub-sectors or when an FDI holding or morethan 51% is sought, permission has to be taken from the Secretariat of Industrial approvals (SIA) or the Foreign Investment Promotion Board. (FIPB). The third route is investment by non-resident Indians.

Transfer of Technology

Technology is an important ingredient of the development mix. Developing countries aregenerally characterized by technological backwardness and a slow pace of technological progress. Transfer of technology from the developed to the developing countries is a necessary measure to speed up the pace of the economic development and modernization process. The new economic policy has sown a seed for the free flow oftechnology transfer through liberalization and globalization. Technology transfer has been taking place on a large scale through licensing agreements andjoint ventures. The methods of technology transfer are as follows.

1. Training or Employment of Technical Export
2. Contracts for supply of machinery and equipment and
3. Licensing agreements.

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The appropriateness of the foreign technology to the physical, economic and social conditions of the developing countries is an important aspect to be considered in technology transfer.

International Monetary Fund (IMF)

A landmark in the history of world economic co-operation is the creation of the International Monetary Fund (IMF). The decision to start IMF was taken at Bretton woods conference andit commenced its operation in March 1947.

According to the Articles of Agreement of IMF, the objectives of IMF are:

1. To promote international monetary cooperation
2. To promote stability in foreign exchange rates;
3. To eliminate exchange control
4. To establish a system of multilateral trade and payments
5. To set right the disequilibria in the balance of payments.

The following are the major functions of the IMF

1. Functions as a short term credit institution.
2. Provides machinery for the orderly adjustments of exchange rates.
3. Acts as a reservoir of the currencies of all the member countries from which a borrower nation can borrow the currency of other nations.
4. Functions as a sort of lending institution in foreign exchange. It grants loans forfinancing current transactions only and not capital transactions.
5. It also provides machinery for altering sometimes the par value of the currency of amember country.
6. It also provides machinery for international consultations.
7. Provides technical experts to member countries having BOP difficulties and other problems.
8. Conducts research studies and publishes them in IMF Staff papers, Finance anddevelopment etc.

The structure of IMF

The highest authority of the fund is the Board of Governors. It consists of Executive Board, a Managing Director, a council and staff with its headquarters in Washington, U.S.A.

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There are ad hoc and standing committees appointed by the Board of Governors and Executive Board. The Board of Governors and the Executive Board are decision-making organs of the fund. The decisions are binding on the fund and its members. **Working of the Fund**

The capital of the Fund included quotas of member countries, amount received from the sale of gold and loans from member countries. When a country joins the fund it is assigned a quota that governs the size of its subscription, its voting power and its drawing rights. At the time of formation of the fund each member has to pay 25% of its quota in gold. The remaining 75% was to be furnished in the country's own currency.

Fund borrowing

The bulk of its financial resources comes from quota subscriptions, besides, selling gold, borrowing from central banks or private institutions of industrialized countries.

Fund lending

The fund gives loans to members to rectify the temporary disequilibria in BOP on current account. If a member has less currency with the Fund than its quota the difference is called *reserve trench*. It can draw up to 25% on its reserve trench interest free but payable within a period of 3 to 5 years. A member can further draw annually from the balance quota in instalments up to 100% of its quota from credit trenches

Other credit facilities

1. Buffer stock Financing Facility (BSFF)
2. Extended Fund Facility (EFF)
3. Supplementary Financing Facility (SFF)
4. Structural Adjustment Facility (SAF)
5. Enhanced Structural Adjustment Facility (ESAF)
6. Compensatory and contingency Financing Facility (CCFF)
7. Systematic Transformation Facility (STF)
8. Emergency structural Adjustment Loans (ESAL)
9. Contingency credit Line (CCL)

IMF has shown sufficient flexibility to mould itself in keeping with the changing international economic conditions. The usefulness and success of the fund lies in its membership, which has increased from 44 in 1947 to 182 in 2000.

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Trends in Foreign Trade

Foreign trade of a country is gaining importance with the goal of achieving economic development and survival of the fittest with the globalization of the market. Foreign tradebecomes more and more important for developing countries. Trends in foreign trade will indicate a country's development ratio. A proper analysis of a country's foreign trade can be studied through the following components: 1. Volume of trade 2. Composition of trade and 3. Direction of trade.

Meaning and definition of Balance of Payments

Balance of payments means a systematic record of all the economic transactions of a country with the rest of the world during a given period, say one year. It throws light on the international economic position of a country.

The international economic performance of a country is reflected in its balance of payments. Each country enters into economictransactions with other countries of the world. As a result of such transactions, it receivesand makes payments to other counties. So balance of payments is a statement of accounts of these receipts and payments.

Benham defined Balance of payments as follows: "Balance of Payments of a country is a record of its monetary transactions over a period with the rest of the world" In the words of **Kindleberger**, "the balance of payments of a country is a systematic record of all economic transactions between its residents and residents of foreign countries".

Composition of Balance of Payments

Balance of payments is a statement or an account, which records all the foreign receipts and payments of a country. It records allthe visible and invisible items. Visible items mean the imports and exports of commodities. Invisible items mean the imports and exports of services and other foreign transfers and transactions. BOPs is classified as balance of payments on current account and capital account. The BOPs on current account records the current position of the country in the transfer of goods, services and merchandise as well as invisible items such as donations, unilateral transfers etc. Balance of payments on capital account shows the country's financial position in the international scenario, the extent of accumulated foreign exchange reserves, foreign assets and liabilities and the impact of current transactions on international financial positions.

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Balance of Trade

Balance of trade confines to trade in visible items only. Visible items are those, which are physically exported and imported like merchandise, gold, silver and other commodities. The invisible items are the services mutually rendered by shipping, insurance and banking companies, payment of interest and dividend, tourist spending and so on. The balance of trade refers to the difference between physical imports and exports of visible items only for a given period, say, a year. During a given period, exports and imports may be exactly equal. Then, the balance of trade is said to be balanced. If the value of exports is in excess of the value of imports, the balance of trade is said to be favourable. If the value of imports is greater than the value of exports, the balance of trade is said to be unfavourable.

Accommodating and Autonomous Capital

If a country has a deficit in its current account balance, there will be always offsetting transactions on the capital account to bring the balance of payments into equilibrium. This may be possible either through autonomous capital flows or through accommodating capital flows.

The Role of the General Agreement on Tariffs and Trade (GATT)

The General Agreement on Tariffs and Trade (GATT) was a multilateral trade treaty between countries to regulate international trade and tariffs in accordance with specific rules, norms or code of conduct. GATT was set up in 1948 in Geneva to follow the objectives of free trade in order to encourage growth and development of all member countries. There are 117 member nations in GATT. The principal purpose of GATT was to ensure competition in commodity trade through the removal of or reduction in trade barriers. GATT served as an important international forum for carrying on negotiations on tariffs. Under GATT, member nations met at regular intervals to negotiate agreements to reduce quotas, tariffs and such other restrictions on international trade. GATT became a permanent international trade institution for the multilateral expansion of trade until it was replaced by World Trade Organisation (W.T.O) in 1995.

Objectives of GATT

1. Expansion of international trade;
2. Increase of world production by ensuring full employment in the participating nations.

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3. Development and full utilization of world resources; and
4. Revising standard of living of the world community as a whole.

The rules adopted by GATT are based on the following fundamental principles:

1. Trade should be conducted in a non- discriminatory way;
2. The use of quantitative restrictions should be condemned; and
3. Disagreements should be resolved through consultations.

Methods of achieving the objectives

The GATT proposed to achievethe objectives through the following methods:

1) Most favoured Nation clause

The clause is also known as elimination of discrimination clause. This clause is to be adopted to avoid discrimination in international trade. The clause implies that each country shall be treated as the most favoured nation. Any particular trade concession offered by a member country to her trading partner should also be available to all the members of the GATT at thesame time.

2) Quantitative restrictions on Imports

The GATT rules prohibited the use of import quota fixation. But three important exceptions were allowed to this rule:

a) Countries, which are facing balance of payments difficulties, may use the device of inputquota fixation.

b) Developing countries may resort to quota fixation but only under procedure accepted bythe GATT.

c) Quotas may be applied to agricultural and fishery products if domestic production is subject to equally restrictive controls.

3) Tariff negotiations and Reduction of Tariff

The GATT recognized that tariffs are often an important obstacle to international trade. Hence, the GATT would encourage negotiations for tariff reduction to be conducted on a reciprocal and mutually advantageous basis, taking into consideration the varying needs of individual contracting parties. The Uruguay Round of talks 1993 was most ambitious and complex. Apart from the traditional tariff and non-tariff measures, new areas such as Trade related Intellectual property Rights (TRIPS), Trade Related Investment Measures (TRIMS) and Trade in services were taken up for discussion. There were differences among members countries in areas such as agriculture, textiles, TRIPS and anti- dumping. The Uruguay Round has enlarged the scope of GATT to include services and agriculture. The Uruguay Agenda

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wanted to remove all trade barriers.

World Trade Organization (WTO)

Seven rounds of negotiations occurred underthe GATT and the eight round known as 'Uruguay Round' started in 1989 and concluded in 1994 with the establishment of the World Trade Organization (WTO) in 1995. The principles and agreements of GATT were adopted for the WTO, along with new ones. There are 150 member countries in WTO which was charged with administering and resolving trade disputes between the members. Unlike the GATT, the WTO has a substantial and effective organizational structure. Pascal Lamy is the Director-General of the WTO since 2005 for a term of four years. The WTO aims for a trading system free of any discrimination and with more freedom, that is, toward fewer trade barriers (tariffs and nontariff barriers). It also aims for a trading system with greater competition but with more accommodation for less developed countries, giving them more time to adjust, greater flexibility, and more privileges.

Major Functions of WTO

1. Administering **WTO** trade agreements.
2. Forum for trade negotiations.
3. Handling trade disputes.
4. Monitoring national trade policies.
5. Technical assistance and training for developing countries.
6. Cooperation with other international organizations.

All members of the WTO will meet once in two years in the Ministerial Conference which can make decisions on all matters of the multilateral trade agreements. The Fourth Ministerial Conference held at Doha, Fifth at Cancum (Mexico) and the Sixth at Hong Kong.The Seventh round to discuss the Doha Development Agenda negotiations were suspended due to persisting disagreements between developed and developing countries.

International Bank for Reconstruction and Development (IBRD)

The International Bank for Reconstruction and Development (IBRD) better known as World Bank was set up in 1944. Since IMF was designed to provide temporary assistance in correcting balance of payments difficulties, an institution was needed to assist long-term investment purposes. Thus IBRD was established for promoting long term investment loans on concessional terms.

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Functions:

1. To assist in the reconstruction and development in the member countries by providing capital support.
2. To promote private foreign investment.
3. To promote growth of international trade in the long run and improve Balance of Payments of member countries
4. To arrange for loans through for small and large projects.

Membership and Organization

All the members of the IMF are members of IBRD. It had 182 members in 2000. Like IMF, IBRD has a three-tier structure with a president, Executive Directors and Board of Governors.The Board of Governors is the supreme body. Every member country appoints one Governor and an alternate Governor for a period of 4 years. The voting power of each Governor is related to the financial contribution of its Government.

Capital Structure

It was started with an authorized capital of $10 billion . In July 1992, it has risen to $184.1 billion.

Funding strategy

The IBRD seeks to maintain unutilized access to funds in the markets in which it borrows. Its objective is to minimize the effective cost of those funds to its borrowers. It is to provide an appropriate degree of maturity transformation between its borrowing and lending. Maturity transformation refers to the Bank's capacity to lend at longer maturities than it borrows.

Special Action Programme (SAP)

Special Action Programme (SAP) was started in 1983 to strengthen IBRD's ability to assist member countries in adjusting to the current economic environment.

Structural Adjustment Facility (SAF)

The Structural Adjustment Facility was introduced in 1985 in order to reduce the balance of payments deficits of its members while maintaining or regaining their economic growth.

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Conditions for lending

1. An efficient regulating mechanism for ensuring transparent policies and depoliticised environment.
2. Adequate risk management.
3. Provision for long-term finance.
4. Increase in the share of the private sector in the country's GDP.

B.ank borrowing

The IBRD is a corporate institution whose capital is subscribed by its members. It financesits lending operations primarily from its own medium and long term borrowing in the international capital markets and currency swap agreement (CSA). The Bank also borrows under the discount note programme. It has enabled two new borrowing instruments. Central Bank Facility (CBF) borrowing inflating rate notes is meant to help IBRD to meet some of the objectives of its funding strategy.

Lending activities

The Bank lends member countries in the following ways.

1. By marketing or participating in loans out of its own funds.
2. By making or participating in direct loans out of funds raised in the market of a member.
3. By guaranteeing loans made by private investors.
4. The Bank also provides facilities to member countries through SAF and SAP. The Bank islaying greater emphasis on developing human resources such as education, population, health, nutrition and environment.

International Finance Corporation (IFC)

The IFC was set up in July 1956, as an affiliate of the World Bank. It was set up with the objective of assisting the private enterprises in developing countries by providing them risk capital. The IFC provides debt and equity finance to projects sponsored by the private sector developing countries. Though IFC is affiliated to World Bank, it is a separate legal entity witha separate fund and functions. Members of IBRD are eligible for its membership.

Objectives

1. In association with private investors, to invest in productive private enterprises

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2. without government guarantee of repayment.
3. It serves as a clearing house, to bring together investment opportunities, private capital and experienced management.
4. To help in stimulating productive investment of private capital both at home and abroad.

Industrial, agricultural, financial, and commercial and other private enterprises are eligible for IFC financing. Their operations are productive and contribute to the development of the economy. It does not follow a policy of uniform interest rate for its investment. It is subject to negotiation.

International Development Association (IDA)

IDA was set up in September 1960, as a subsidiary of the World Bank. The establishment of IDA was another step in the direction of increasing international liquidity in the world. The IDA was set up particularly to provide finance to less developed countries on a soft loan basis ie. on terms imposing lower servicing charge on loans than the conventional bank charges.

Objectives

1. To promote economic development
2. To increase productivity
3. To raise standard of living in the member countries
4. Furthering the developmental objectives of the World Bank and supplement its activities.
5. To provide finance to the member countries to meet their important development requirements. IDA loans can be utilized to finance both foreign exchange and local currency costs.

The Multinational Investment Guarantee Agency (MIGA)

MIGA is the new affiliate of the World Bank family and was established in 1988. It has anauthorized capital of $ 1.08 billion.

Objectives

1. To encourage the flow of direct foreign investment into developing member countries.
2. It provides insurance cover to investors against political risks.
3. It insures only new investments.

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4. Promotional and advising services are provided to increase the attractiveness of the investment climate.
5. MIGA's guarantee serves as a catalyst for multinational investments.

9. Population

Meaning of Population

The term population refers to the whole number of people or inhabitants in a country or region.

Factors determining population growth

The basic factors determining population growth are

1. Birth rate
2. Death rate
3. Migration
    a) Out-migration (Emigration)
    b) In-migration (Immigration)

Birth Rate

Birth rate has a positive influence on growth of population. Higher the birth rate, higherwill be the growth of population. The birth rate depends on the following factors:

1. the age of marriage
2. the rapidity of child birth
3. social customs and beliefs and
4. Illiteracy and ignorance of controlling births.

Early marriage, higher child birth, higher the spread of social customs and beliefs (like son preference to do the religious functions) and higher the rate of illiteracy and ignorance of birth controlling measures, higher will be the birth rate and population growth. Social awareness and spread of education among the people can help to increase the mean age of marriage, increase the knowledge about family planning methods and family welfare measures to control births, reduce the rapidity of child birth and thereby reduce the birth rate.

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Death Rate

Lower the death rate, higher will be the population growth and vice versa. High death rates may be due to hunger, starvation, malnutrition, epidemics, lack of proper medical and sanitary facilities. On the other hand, low death rates may be the result of better diet, pure drinking water, improved hospital facilities, control of epidemics and contagious diseases and better sanitation.

Migration

Out-migration will reduce population growth while in-migration will increase the population growth. Migration is not an important factor contributing to the population growth due to the restrictions imposed by different countries. Thus, the two major causesfor the variations in population are birth rate and death rate.

Population and Economic Development

Population growth can be both a stimulant as well as an obstacle to economic development.

Population as a stimulant to economic development

1. In a backward economy, population results in increase in supply of labour. This in turn results in the availability of cheap labour in the economy. Therefore, under a given technology with the availability of capital, production can be increased by increasing the labour use.
2. Population growth results in increased demand for products. Increased demand results in increased production, employment and income in the economy. As a result, theeconomy will develop.
3. Due to population growth, the supply of goods and services increases. Increased supply results in increased production, which in turn results in specialisation. Specialisation will induce technological improvements.
4. Increased demand and increased supply of products result in scarcity of resources, which induce technological improvements.

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Population Explosion

Population explosion means the alarming and rapid rate of increase in population.

Causes of Population Explosion

1. High Birth Rate

High Birth rate is a major cause responsible for the rapid growth of population. In India,although the birth rate has declined from 45.8 per thousand during the period 1891-1900 to about 25.8 per thousand in 2001, it is still considered to be substantially high. This shows that the birth rate has not come down considerably in spite of the increase in the widespread propaganda of family planning, family welfare programmes and population education campaigns.

2. Low Death Rate

The phenomenal fall in the death rate in recent years is another important factor that has contributed to the rapid increase in population. The death rate in India is about 8.5 per thousand in 2001.

Due to advancement in medical science, dreadful and chronic diseases such a small pox, cholera, plague, typhoid are no longer dreaded. Better facilities for sanitation and cleanliness, provision of pre-natal and post-natal care has reduced infant mortality rate.

3. Early Marriage

The practice of early marriage is another important reason for the rapid increase in population in India. The mean age of marriage for girls is about 18 years, which is low, compared to the other countries of the world, which is about 23 to 25 years. This results in a longer span for reproductive activity and the increase in the number of children.

4. Social and Religious reasons

In India, every person has to marry because marriage is a compulsory institution as per social norms. In joint family system, nobody feels individual responsibility and everybody has access to equal level of consumption. Therefore, people do not hesitate to increase the size of the family. Most of the people think that at least one male child should be born in the family. In the expectation of getting a male child, they go on increasing the family size.

5. Poverty

Poverty is another cause which contributes to the increase in population. Children are source for income of the family. The children at a very young age help their parents in work,

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instead of going to school and thus prove to be an asset for the family. Every additional child will become an earning member and thus supplement the family income.

6. Standard of living

People whose standard of living is low tend to have more children because an additional child is considered as an asset rather than a liability. Since a majority of the population is uneducated, they are unable to understand the need for family planning. They are unaware that a smaller size of family will help them enjoy a better standard of living.

7. Illiteracy

A major part of the population (about 60%) in India is either illiterate or has the minimum education. This leads them to accept minimal work in which they cannot even support themselves. Unemployment and underemployment further lead to poverty. Moreover due to the prevalence of higher rate of illiteracy, there is widespread ignorance in the form of social customs and beliefs like early marriage and preference for a male child. As a result, there is high rate of population growth in the country.

Population Explosion as an obstacle to Economic Development

India is facing the situation of population explosion. Although we need more labour supply for our economic development, it is also true that if our population keeps on rising, the process of economic development will be affected. The rising population in India affects economic development in the following ways:

(1) Food Shortage

If the population of India goes on rising and there is no proportionate increase in agricultural production, the country will face a serious food problem.

(2) Burden of unproductive Consumers

The greater the increase in population, the greater is the number of children and old persons. Children and old persons consume without their making any contribution to output. The increasing number of children and old people increase the burden in terms of more requirements of nutrition, medical care, public health and education that go unattended to a large extent.

(3) Reduction in National and Per Capita Income

The fast growing population retards the average growth rate of national income and per capita income. This is because whatever is added to the national income is consumed by

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ever-increasing population.

(4) Low savings and investment

The most serious consequences of a rapid increase in population is that it reduces the capacity to save and invest. The national income and per capita income in India is very low to leave any margin for the people to save. Further, there will be a fall in effective demand as the people's purchasing power is low. Rapid population growth thus makes it difficult to increase the rate of savings which determines the possibility of achieving higher productivity and incomes in a country.

(5) Reduction in Capital Formation

Capital formation is very essential for the economic development of a country, particularly for a developing country like India. Capital formation depends upon saving and investment. This is not possible when there is a rapid growth of population, which results in more unemployment and underemployment. Thus, the fast-growing population affects the capital formation in the country adversely.

(6). Unemployment and Underemployment

Rising population aggravates the problem of unemployment. The labour force also increases with the increase in population; and this increased labour force is not fully absorbed due to lack of employment opportunities. Therefore, there are more unemployed and underemployed people.

(7) Loss of Women's Labour

Rapid and frequent childbirths make a large number of women unable to take part in productive activity for longer periods. This is a waste of human resource, and it retards economic development.

(8) Low Labour efficiency

The increasing population adversely affects the national income and the per capita income. Due to this, the people have a low standard of living, which makes them less efficient. This hinders the rapid development of the country.

(9) More Expenditure on Social Welfare Programmes

A rise in population increases the number of children. This would demand more social expenditure on medical care, public health, family welfare, education and housing, etc.

(10) Agricultural Backwardness

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The increase in population has led to uneconomic holdings through subdivision and fragmentation of land holdings in India. The size of holding is so small that mechanised farming is not possible. Although some successful efforts towards development of agriculture have been made under the Five Year Plans, agricultural production still far short of the requirements of the population and the agro-industries in the country.

(11) Underdeveloped Industries

The rapid growth of population adversely affects industrial development. This is the reason why neither the cottage and small- scale industries nor large-scale industries could develop adequately in the country. Both big and small industries require adequate capital, whereas the rate of capital formation is low in India. Public investment in India is insufficient for the industrial development of the country.

(12) Financial Burden on Government

Rapid increase in population is a financial strain to the government. The resources have to be spent on launching poverty alleviation programmes and social welfare schemes. This includes provision of good drinking water, housing, sanitary, health and medical facilities in order to increase the standard of living of the people. If the population is controlled, then the government can spend on more productive purposes which would increase the national and per capita income and thereby raise the standard of living of the people. All these above mentioned factors emphasise the urgency of checking the population growth in India. The rapid rate of population growth affects the economic progress of the country adversely. That is why, it is sometimes said that in India we have to run and run to remain in the same place.

Steps to check rapid growth of population

(1) Couple Protection Rate (CPR)

CPR should be increased, which means the percentage of couples using birth control or familyplanning methods should go up.

(2) Infant Mortality rate (IMR)

IMR must be reduced further because when infants die in lesser numbers, there is an incentive to adopt small family norm by the people.

(3) Industrialisation of the country

The burden of population on land must be reduced. Cottage and small scale industries must be developed in villages to provide employment to the maximum number of people. This

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leads to increase in standard of living which acts as a check on population growth.

(4) Increase in Female Literacy Rate and Education

The educated people have a better and more responsible outlook towards the size of theirfamilies. They can understand the advantages of a small family and adopt family planning methods to reduce the family size. This will help in reducing the birth rate.

(5) Late Marriages

Late marriages must be encouraged. At the same time, early marriages must be strictly checked. The minimum age of marriage for boys at 21 years and for girls at 18 years should be strictly followed in real life.

(6) Legal Steps

Strict laws must be made and enforced to check early marriages and polygamy.

(7) Family Planning

This is the most important measure to check the rapid growth of population. Family Planning means limiting the size of the family. The Family Planning Campaign should be a national movement. Education about family planning must be made common. People must me made aware of the different methods of birth control.

Theories of Population

Malthusian Theory of Population

The Malthusian theory of population is the most well-known theory on population in economics. Malthus pointed out that an accelerated increase in poplation would outweigh the increase in food production. This would have an adverse impact on the development of an economy. This theory is explained in the following propositions:

1. The rate of growth of population is limited by the availability of the means of subsistence

i.e. food. If the means of subsistence increase, population also increases unless it checked.

2. Population increases at a faster rate than food production. In other words, while population increases in a geometric progression, food production increases in an arithmetic progression.

3. The preventive and positive checks are the two measures to keep the population on the level with the available means of subsistence. The first proposition states that the size of population is determined by the availability of food production.

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In other words, greater production can sustain a larger population. If food production does not increase to match the rate of growth of population, it will lead to poverty. The want of food would result in deaths and thereby automatically limit the population. If the food production increases, the people will tend to increase their family size. This will lead to more demand for food, so the availability of food per person will diminish. This will lead to a lower standard of living. The second proposition states that population would increase at a geometrical progression i.e. in the ratio of 2, 4, 8, 16, 32, etc., but food production would increase at an arithmetical progression i.e. in the order of 2, 4, 6, 8, 10, etc. If population increases there will be a burden on land, which is limited; as a result there will be diminishing returns. This will lead to a decrease in the output per worker and a corresponding decrease in the availability of food per person. The imbalance between the population growth and food supply would lead to a bare subsistence of living, misery and poverty. This imbalance is corrected by two checks namely preventive checks and positive checks.

Preventive checks are those checks applied by man to reduce the population. The preventive checks include late marriage, self-restraint and other similar measures applied by people to limit the family.

Positive checks affect population growth by increasing death rate. The positive checks on population are many and include every cause either from vice or misery which helps to shorten the life span. Common diseases, plagues, wars, famines unwholesome occupations, excess labour, exposure to the seasons, extreme poverty, bad nursing of children are a few examples for positive checks.

Malthus thus recommended that the preventive checks can be used by mankind to avoid misery or else the positive checks would come into operation. As a result, there will be a balance between population and food production. Malthusian theory is explained in the following Flow Chart.

The Theory of Optimum Population

The modern theory of optimum population brings out the relationship between changes in population and the consequent changes in per capita income. Modern economists such as Sidgwick, Cannon, Dalton and Robbins have propagated this theory.

The Theory of Demographic Transition

The demographic transition brings out the relationship between fertility and motility, i.e. between the birth rate and the death rate. Birth rate refers to the number of births occurring per 1000 in a year. Death rate refers to the number of deaths occurring per 1000 in a year. This theory explains the changes in these rates as a consequence of economic development. This

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theory points out that thereare three distinct stages of population growth.

Stage I: High Birth Rate and Death Rate

In the first stage, the country is backward and less developed. Agriculture will be the main occupation of the people and primitive mode of cultivation will be used. The standard of living of the people will be low. This stage is characterised by high birth rate and high death rate. The high death rate is due to poor diets, improper sanitation and lack of proper medical facilities. Birth rate is high on account of widespread illiteracy, ignorance of family planning techniques, early marriages, social beliefs, customs and attitudes of the people. In this stage, the rate of growth of population is not high since high birth rate is offset by the high death rate and the population growth stagnates.

Stage II: High Birth Rate and Low Death Rate

As a country advances, it might result in increase in industrial activity, creating more employment opportunities. This will raise the national and per capita income of the people, thereby increasing their standard of living. The economy reaches the second stage of high birth rate and low death rate. The advancement in science and technology will result in the availability of better medical facilities. The eradication of many epidemics and dangerous diseases and better sanitary conditions reduce the incidence of disease and death. The birth rate still remains high due to the resistance to change, and the long established customs and beliefs. Thus there is an imbalance between high birth rate and low death rate resulting in high population growth, and the country witnesses population explosion.

Stage III: Low Birth Rate and Death Rate

Economic development leads to change in the structure of the economy from an agrarian toa partially industrialised one. With the increase in industrialisation, people migrate from rural to urban areas, and there is a change in the attitude of the people. With the spread of education, people prefer small families in order to increase the standard of living. Thus the birth rate is reduced. Implementation of better medical facilities, control of disease and public sanitation result in low death rate. During this third stage of low birth and death rates, the growth of population tends to be stable. Almost all countries have passed through these three stages (demographic transition) of population growth. The three stages of demographic transition are shown in Figure 2.2.

Census

The term 'Census' can be defined as the process of collecting, compiling, evaluating, analysing and publishing the demographic economic and social data relating to all persons in

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a country or a well-delimited part of a country at a specified time. Census of population in India was taken in 1872 and then in 1881. From then onwards, the census is taken once in 10 years. The latest census was taken in 2001. Census is very important to know (1) the rate of growth of population (2) the changes in the distribution of the population. Census is useful for economic planning, and for implementing welfare schemes and measures.

The Use of Population Census

The population census provides comprehensive details of India's population characteristics.The details recorded in the population census are as follows:

a. Total Population
b. Sex Composition
c. Rural versus Urban population
d. Age Composition
e. Density of Population
f. Literacy Rate
g. Urbanisation
h. Occupational Pattern

Population Policy

India was the first developing country to adopt a population policy and to launch a nationwide family planning programme in 1952. The main objective of the population policyis to ensure that there is reasonable gap between the fall of death and birth rates. Population policy refers to the efforts made by any Government to control and change the population structure.

National Population Policy 2000

The National Population Policy (NPP) 2000 has the immediate objective of addressing the unmet needs of contraception, health infrastructure, health personnel and integrating service delivery for basic reproductive and child health care. It also lays emphasis on the medium term objective of bringing total fertility rates to replacement level by 2010. A Total Fertility Rate of 2.1 is known as replacement level fertility.

The policy's long term objective is to stabilise population by 2045. A National Commission on population presided over by the Prime Minister, Chief Ministers of all States and other dignitaries as the members has been constituted to oversee and review the policy (NPP- 2000) implementation. Similar to the National Commission, State Level Commissions

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presided over by the respective State Chief Ministers have also been set up with the same objective of ensuring implementation of the policies.

Measures to achieve a stable population

The National Population Policy has listed the following measures to achieve a stable population by 2045.

1. Reduction of infant mortality rate (IMR) below 30 per 1,00,000 live births
2. Reduction of maternal mortality rate (MMR) to below 100 per 1, 00,000 live births
3. Universal immunization
4. To achieve 80 percent deliveries in regular dispensaries, hospitals and medical institutions with trained staff
5. Access to information , containing AIDS, prevention and control of communicable diseases
6. Incentive to adopt two-child small family norm
7. Strict enforcement of Child Marriage Restraint Act and Pre-Natal Diagnostic TechniquesAct
8. Raising the age of marriage of girls from 18 to 20
9. A special reward for women who marry after 21

The Action Plan of the programme includes the following:

1. Self-help groups at village Panchayat levels comprising mostly of housewives will interactwith health care workers and gram panchayats
2. Elementary education to be made free and compulsory
3. Registration of marriage, pregnancy to be made compulsory along with births anddeaths

The Government hopes to achieve the objective of population stabilisation by 2045

10. Poverty

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Introduction

Two major problems that the developing countries of the world face are mass poverty and mass unemployment. They are interconnected. People are poor because they do not have income. That is because they are unemployed. There are also cases where people are employed and poor. For centuries, the problem of poverty is there in India. Reducing poverty is one of the major goals of planning in India. We must have knowledge about the poor and their precise social and economic circumstances. Only then the government can adopt effective policies for removing poverty.

Definitions of Poverty

Poverty has been defined in a number of ways. The World Bank (1990) has defined poverty as "*the inability to attain a minimal standard of living*". In the words of Dandekar (1981) "w*ant of adequate income, howsoever defined is poverty…*" Thus, lack of adequate income to buy the basic goods for subsistence living is an important element in the definitions of poverty.

Types of poverty

Absolute poverty and Relative poverty When people do not have adequate food, clothing and shelter, we say they are in absolute poverty. Relative poverty refers to differences in income among different classes of people or people within the same group or among people of different countries. If we divide the population of a country into different class intervals based on income and if we compare say, the top 20 percent of population with the bottom 20 percentof population, then we can say we are studying about relative poverty.

Temporary or chronic poverty

In countries like India, when there is poor rainfall, the crops fail and the farmers temporarily enter into a poverty sample. But when they are poor for long, then we call it chronic or structural poverty. For example, when agriculturists in many poor countries are dependent upon rain and when agriculture is marked by low productivity, we say farmers are in chronicpoverty.

Primary Poverty and Secondary Poverty

Rowntree (1901) made a distinction between primary poverty and secondary poverty.

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Primary poverty refers to “families whose total earnings are insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency”. “Secondary poverty refers to a condition in which earnings would be sufficient for the maintenance for merely physical efficiency were it not that some portion of it is absorbed by other expenditure, either useful or wasteful such as drink, gambling and inefficient housekeeping.” Rowntree said that secondary poverty prevented many more people from meeting what he called “human needs standard” than did primary poverty (that is, inadequate incomes).

Rural Poverty and Urban Poverty

A majority of the people in rural areas are poor because they do not own assets like landand they work as agricultural labourers; their wages are low and they get work only for a few months in a year. The urban poor, on the other hand, work for long hours but they get low incomes. They are employed mostly in the unorganized or informal sector. They are “sub-employed”. Sub-employed are those

1) who work part- time but want full - time work; 2) family heads working full time whodo not earn enough to bring their families over the poverty line and 3) discouraged workers who no longer seek work.

Other Dimensions of Poverty

In addition to the income based or economic view of poverty, there are other dimensions of poverty. For example, one can think of being housing poor, healthcare poor, educationpoor, poor in the possession of desirable physical or mental attributes.

Characteristics of Poor Households

Generally, households with lowest income per person tend to be large, with many children or economically dependent members. Over a typical year, the poor spend nearly all their income on consumption of one sort or another and half of this consumption is likely to be inthe form of food. Naturally the relative prices of food staples (food grains, dhalls, oil, vegetables) are crucial to their welfare. Poor households generally invest in education for boys than for girls. The poor play little part in politics. In one sense they are disenfranchised. Of course, there are some exceptional cases. Crime, ill-health and lack of access to the poor are considered other correlates of poverty. In many countries, poverty is correlated with caste and race. The scheduled caste and tribal people in India and the Blacks in the USA are classic examples. The extent of poverty in a country depend mainly on two factors:

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(1) the average level of national income and (2) the degree of inequality inits distribution.

Poverty Line

Poverty Line refers to the minimum income, consumption, or, more generally *access* to goodsand services below which individuals are considered to be poor. The poverty line is the expenditure level at which a minimum calorie intake and indispensable non-food purchases are assured. It may be noted that even among the poor, there are differences in the degrees of poverty. So the focus of the government policies should be on the poorest of the poor. Nutrition based poverty lines are used in many countries.

Poverty in India

Dandekar and Rath estimated the value of the diet with 2,250 calories as the desired minimum level of consumption. While the Planning Commission accepted Rs.20/- per capita per month (i.e. Rs.240/- p.a.), Dandekar and Rath suggested a lower minimum for rural population (Rs.180/- per capita p.a.) and a higher minimum (Rs.270/- per capita p.a.)
for urban population at 1960-61 prices. At 1968-69 prices, the corresponding figures forthe rural and urban population was Rs.324/- and Rs.486/- respectively. On this basis, they estimated that 40 percent of the rural population and about 50 percent of the urbanpopulation were below the poverty line. According to P.D.Ojha, the percentage of those below the poverty line in rural sector increased from 52 percent in 1960-61 to 70 percentin 1967- 68.
B.S.Minhas by taking per capita annual consumption expenditure of Rs.240/- as the barest minimum concluded that nearly half of the rural population (50.6 percent) was living below the poverty line in 1968. P.K.Bardhan's study concluded that the percentage of rural population below the poverty line increased from 38 percent in 1960-61 to 54 percentin 1968-69. Montek Singh Ahluwalia's study of rural poverty (1977) arrived at the conclusion that the rural poverty declined initially from 50 per cent in mid – 1950s to around 40 percent in 1960-61, but increased to 56.5 percent in 1967-68. Whenever agricultural performance was good, rural poverty declined and whenever it was poor, it rose. It may be noted that Ahluwalia used an expenditure level of Rs.15/- in 1960-61 prices for rural areas and Rs.20/- per person per month for urban areas. Ahluwalia accepted that this level of expenditure represents an extremely low level of living. The Seventh Finance Commission used a concept called "the augmented poverty line". In it, along with private consumer expenditure per capita, public expenditure on
(1) health and family planning; (2) water supply and sanitation;

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(3) education; (4) administration of police, jails and courts; (5) roads; and (6) social welfare were taken into account. According to the estimate of Seventh

Finance Commission, 52 percent of the population was below the poverty line. It also said that this percentage (52 percent) was applicable to urban as well as rural areas. The Planning Commission estimated the poverty line by taking Rs.49.1 and Rs.56.6 per capita monthly expenditure for rural and urban areas respectively. The World Bank estimated for India that in 1988, 39.6 percent of the population was below poverty line. The percentage for rural areas was 41.7 percent and urban areas 39.6 percent. According to the Planning Commission, the incidence of poverty for all-India declined form 54.9 percent in 1973-74 to 39.3 percent in 1987-88. For the same years, rural poverty declined from 56.4 percent to 39.1 percent and urban poverty declined from 49.2 percent to 40.1 percent.

At present as per Government of India, poverty line for the urban areas is Rs. 296 per month and for rural areas Rs. 276 per month. That is *people who earn less than Rs. 10 perday is considered to be below the poverty line*. As per GOI, this amount will buy food equivalent to 2200 calories per day, medically enough, to prevent death. At this level of earning, even in a poor country like India, survival on Rs. 10 per day is a nightmare. The greater developmental tragedy in India is that about 260 million people are still living without even Rs. 10 per day.

Causes of Poverty in India

The main causes of rural poverty in India are as follows :

1. Unemployment and underemployment: Even during the year in which there are good rains, agricultural labourers do not get work throughout the year.
2. Population pressures : Because of population pressure, there are many dependents per every earning member. And there is the problem of disguised unemployment. On a farm, there may be work for only four persons. But six or seven persons may be there on the farm. The marginal productivity of the extra persons is almost zero.
3. Indian agriculture is marked by low productivity. So majority of those engaged in agriculture are poor.
4. A majority of people in rural areas do not have enough assets, especially land. The main reason for this is the concentration of land in the hands of a few families. The regional variations in the incidence of poverty are also high. For example, in 1987-88, 58 percent of the poor people in India were living in five states, namely, Uttar Pradesh, Bihar,

Maharashtra, West Bengal and Madhya Pradesh.

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Many workers in urban areas suffered from sub-employment. They are the *working poor.* And migration of people from rural to urban areas is also one of the causes of urban poverty.

Poverty alleviation programmes

The problem of poverty eradication is one of providing employment and raising the productivity of low level of employment. The following measures have been taken by the government to remove poverty from the country.

1. *Land Reforms*

Land reforms legislation has been passed by the state governments, which aim at improving the economic conditions of agricultural landless labourers. For instance, with the abolition of the Zamindari system, the exploitation associated with the system has been removed. Tenancy Laws have been passed in most of the states for protecting the interests of the tenants and helping them to acquire possession over the lands they cultivate.

Every state has passed the necessary legislation fixing ceiling on agricultural holdings by which the maximum amount of land which a person can hold has been fixed by law. The surplus lands thus acquired were to be distributed to the landless labourers and small peasants.

2. *Jawahar Gram Samridhi Yojana (JGSY)*

It was introduced in April 1999 as a successor to Jawahar Rozgar Yojana on a cost sharing basis of 75 **:** 25 between the Union and States.

3. *National Social Assistance Programme (NSAP)*

It was launched on August 15, 1995 to provide social assistance benefits to poor householdsaffected by old age, death of primary bread winner or need for maternity care.

4. *Employment Assurance Scheme (EAS)*

It was started on October 2, 1993 in 1778 backward blocks in drought prone, desert, tribal and hill areas. It was expanded to cover all the 5,488 rural blocks of the country. It gave wage employment to the rural poor. In September 2001, it was merged into new Sampoorna Gramin Rozgar Yojana along with Jawahar Gram Samridhi Yojana.

5. *Pradhan Mantri Gramodaya Yojana (PMGY)*

It was introduced in the Budget for 2000- 2001 with an allocation of Rs. 5,000 crore. Its focus is on health, primary education, drinking water, housing and rural roads. Common PropertyRights in grazing lands, wastelands, forests and water resources were made available

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to the rural people in the past. They have been cancelled in the recent past due to commercialisation and privatisation of these rural community resources in the country.

6. Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

Urban self-employment and urban wage- employment are the two special schemes under it. It substituted in December 1997 various programmes operated earlier for urban poverty alleviation. It is funded on 75: 25 basis between the Union and the States. The expenditure under this scheme was only Rs. 45.5 crore at the revised stage. It was Rs. 39.21 crore in 2001-02 and an allocation of Rs. 105 crore was provided for 2002-03 (Economic Survey, 2002-03, p.217).

7. Integrated Rural Development Programme (IRDP)

The concept of an Integrated Rural Development Programme was first proposed in the central budget for 1976- 77, and a beginning was made in this regard. This programme was intended to assist rural population to derive economic benefits from the development of assets of each area. The programme with some modifications was introduced on an expanded scale in 1978-79, beginning with 2,300 blocks, of which 2000 were under common coverage with SFDA, DPAP and CADP, with another 300 blocks added up during 1979-80. Its coverage was extended to all the blocks of the country since October 2, 1980. Besides the smaller and marginal farmers, this programme was more specific in regard to agricultural workers and landless labourers, andadditionally brought within its purview rural artisans also. The programme emphasised the family rather than the individual approach in the identification of the beneficiaries.

11.Unemployment

Meaning of Full Employment

Full employment refers to a situation in which all the workers who are capable of working and willing to work get an employment at reasonable wages. It does not imply that all adultshave jobs.

Meaning of unemployment

Unemployment refers to a situation in which the workers whoare capable of working and willing to work do not get employment.

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Unemployment Estimates

A person working 8 hours a day for 73 days of the year is regarded as employed on a standard person year basis. The following are the three estimates of unemployment generated in the 27th round of NSS (National Sample Survey).

1. ***Usual Principal Status unemployment***: It is measured as number of persons who remained unemployed for a major part of the year. This measure is more appropriate to those in search of regular employment e.g., educated and skilled persons who may not accept casual work. This is also referred to as 'open unemployment'.
2. ***Weekly Status unemployment:*** It refers to the number of persons who did not find even an hour of work during the survey week.
3. ***Daily Status unemployment:*** It refers to the number of persons who did not find work on a day or some days during the survey week.

Causes of Unemployment

1. ***High Population growth*****:** The galloping increase in population of our country during the last decade has further aggravated the unemployment problem in the country. Due to rapidly increasing population of the country, a dangerous situation has arisen in which the magnitude of unemployment goes on increasing during each plan period.
2. ***Insufficient Rate of Economic Progress*****:** Although India is a developing country, the rate of growth is inadequate to absorb the entire labour force in the country. The opportunities of employment are not sufficient to absorb the additions in the labour force of the country, which are taking place asresult of the rapidly increasing population in India.
3. ***Absence of employment opportunities in activities other than agriculture:*** As enough other employment opportunities are not available, agriculture is the principal area of employment in our country. Thus, pressure on land is high, as about 2/3 of the labour force is engaged in agriculture. Land is thus overcrowded and a large part of the work force is underemployed and suffer from disguised unemployment.
4. ***Seasonal Employment*****:** Agriculture in India offers seasonal employment; thus agricultural labour remains idle during the off-season.
5. ***Joint Family System*****:** Existence of joint family system in India promotes disguised unemployment. Usually the members of a family work on their family farms or do family business. There are more workers on a family farm than what would be needed on them.
6. ***Increasing turnout of students from Indian Universities*****:** During the last decade, educated unemployment has increased due to rapid turnout of graduates by the Indian

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universities. Moreover, in the Indian educational system, more emphasis is placed on engineering and other Technical subjects rather than on Arts subjects. But there is unemployment amongst technical graduates as well. There is a lack of proper vocational education in the country.

7. ***Slow Developing of Industries:*** Industrialization is not rapid in our country and industrial labour finds few job opportunities. The agricultural surplus labour force is not absorbed by the industrial sector. This leads to disguised unemployment in agriculture.

Measures to Solve Unemployment Problem in India

A close reading of the Five-Year Plans reveals that in every Five- Years Plan, employment expansion has been emphasised as an objective of development. Despite all the plan pronouncements, the backlog of unemployment has increased. This is because each Plan was not even able to absorb the new entrants in the labour force. The following measures have been suggested for solving the unemployment problem in our country:

1. A Change in the pattern of investment

The planning process in the initial stages gave importance to an investment- allocation pattern with a high capital- labour ratio. Therefore, a shift in the emphasis to mass consumer goods industries would generate more employment to absorb the unemployed labour force. Moreover, increase in the supply of such goods may help arrest the rising price-level and increase the economic welfare of the people. This is the wage-goods model of development suggested by Vakil and Brahmanand.

2. Encouragement to small enterprises as against big enterprises

The employment objective and the output objective can be achieved, if greater investment is directed to small enterprises rather than to large enterprises. Now that the Government wants to undertake decentralized development with emphasis on small- scale enterprises, it would be desirable to reorient credit, licensing, raw material allocation and other policies in such a manner that both employment and output are enlarged simultaneously.

3. Problem of Choice of technique

It would be better to switch over to intermediate technologies till the process of industrialisation gets such a powerful momentum that the new entrants to labour force can be absorbed. During the period of rapid growth in the labour force, it would be advisable to adjust the choice of techniques consistent with the employment objective. Intermediate technology would be more suited to Indian conditions.

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4. **Encouragement of New Growth Centres in Small Towns and Rural Areas**

Experience of planning has revealed that the overcrowded metropolitan centres havereceived a large share of investment. Therefore, the smaller towns should be developed as new growth centres for the future. The establishment of small industrial complexes can increase employment opportunities and provide flexibility to the economy.

5. **Subsidies on the Basis of Employment**

All schemes of subsidies and incentives to large and small industries have helped output maximisation and greater use of capital resources. The pattern of subsides should be altered. Creation of more employment should be treated as the basis for the grant of subsides and incentives. This will shift the entire structure of government support from the large-scale producer to the small-scale producer as this is more consistent with the objective of employment generation and achieving equality and social justice.

6. **Reorientation of Educational Policy**

One great defect of our educational system is that it leads one to take up the professional degree only. The highdegree of unemployment among the educated signifies the urgent need to reorient oureducational system to greater employment opportunities.

Education system should be more diversified. It should have more short term vocational courses that will cater to the local employment needs. Development of quality education is a prerequisite for the development of a nation as it is the remedy for all problems including the problem of unemployment in the country. Hence, a high priority needs to be accorded for education in public expenditure.

7. **Underemployment in Rural Areas**

N.S.S. data have revealed the existence of a high degree of underemployment in India. The total number of underemployed persons available and willing to take up additional work is estimated to be more than two crores. It is necessary to organise the Rural works Programme. Failure of implementation of Rural Works Programme underlines the relatively low importance given to the rural sector to provide additional employment to millions of landless labourers and small and marginal farmers. Urgent action is needed inthis direction so that work opportunities grow in the rural areas. This will raise the level of income and employment in rural areas and reduction in poverty levels.

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12. Human Resource Development

Human Resource Development

The term „Human Resource Development‟ (HRD) is used with different meanings in different contexts. According to F.H. Harbison, human resources are "the energies, skills, talent and knowledge of people which are, or which potentially can or should be applied to the production ofgoods or the rendering of useful services".

Gender Related Development Index

GDI adjusts the HDI to reflect the inequalities between men and women. The three measures used related to (1) female life expectancy, (2) female adult literacy and gross enrolment ratio and (3) female per capita income.

Human poverty index (HPI)

The 1997 HDI introduced Human Poverty Index (HPI). It measures deprivation in longevity, knowledge and a decent living standard. If people are expected to die before the age of 40, if adult illiteracy rate is high, and if health services are poor, access to safe water is low and if the percentage of malnourished children under five is high, then human poverty index will be highand the country can be ranked as poor. Based on the lines of HDI, HDI for various states of India was constructed. The Planning Commission of India brought out National Human Development Report in 2001. It provides statewise as well as All – India Human Development Indices. Some states like Tamil Nadu have also brought out Human Development Report.

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