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Foreign Capital in India : Foreign Direct and Portfolio investment

2.1.1 Introduction

Capital is considered as an important element in the path of developmental process of the underdeveloped like India. The following are the needs of foreign capital for a developing country like India. In view of the scarcity of capital resources due to inadequate capital formation in the country, the foreign capital is urgently needed to support various investment projects. Considering the gap in technological knowledge prevailing in an underdeveloped country like India, the foreign capital is badly needed to update the traditional technology of production for attaining international competitiveness. The underdeveloped countries are facing the lack of flow of domestic capital at the initial stage of a project due to lack of experience and expertise and high initial risk. The developmental programmes of the underdeveloped country depend much on building infrastructural facilities which require huge investment. Foreign capital can provide necessary support towards building such infrastructural facilities in the country. Foreign capital brings with it other factors like technical knowledge, R&D facilities, business experience etc. which are considered equally important for economic development. In order to meet the balance of payment crisis arising from the huge import required for importing capital goods, and other maintenance imports in the initial part of development process of a developing country like India, the flow of foreign capital can offer a temporary solution. Thus foreign capital is no doubt considered as an important source of resources for funding development projects. But while inviting foreign capital care must be taken to protect the interest of the country.

2.1.2 Objectives of lesson

In this lesson we will discuss need for foreign capital, direct foreign investment and portfolio investment.

2.1.3 The Need for Foreign Capital

If a backward and underdeveloped country is interested in rapid economic development, it will have to import machinery, technical knowhow, spare parts and even raw materials. One method of paying for the imports is to step up exports. This is possible, if the Government is prepared to curtail consumption drastically and export more simultaneously curtailing import of consumption goods, Russia, China, and others had adopted this method after the establishment of communist governments in these countries. As this involves a lot of sacrifice, it can be adopted only by a government which is committed to such, a policy. The second alternative of getting foreign technology and equipment is to depend upon foreign assistance in some form or the other. Most countries of the world which embarked on the road to economic development had to depend on foreign capital to some extent. The degree of dependence, however, varied with the extent to which domestic resources could be mobilised, the state of the domestic economy in respect of technical progress, the attitude of the respective governments, etc. But the fact cannot be denied that foreign capital contributed in many important ways to the process of economic growth and industrialisation. The need for foreign capital for a developing country like India can on account of the following reasons:

(a) Domestic capital is inadequate for purposes economic growth and it is necessary to invite foreign capital.

(b) For want of experience, domestic capital and entrepreneurship may not flow into certain lines of production. Foreign capital can show the way for domestic capital.

(c) There may be potential savings in a developing economy like India but this may come forward only at a higher level of economic activity. Itii therefore, necessary that foreign capital shot help in speeding up economic activity in the initial phase of development.

(d) It may be difficult to mobilise domestic savings for the financing of projects that are needed for economic development. In the early stages of development, the capital market is itself underdeveloped. During the period in which the capital market is in the process of development, foreign capital is essential as a temporary measure.

(e) Foreign capital brings with it other scarce productive factors, such as technical know-how, business experience and knowledge which are equally essential for economic development.

2.1.4 Forms of Foreign Capital

The different forms of foreign investment are:

Direct Foreign Investment: Foreign capital can enter India in the form of direct

investments. In the past, companies had been formed in advanced countries with the specific purpose of operating in India. Sometimes companies of advanced countries start their subsidiary offices or branches and affiliates in India. Alternately, foreigners may subscribe to stocks and debentures of concerns in India. (This is known as portfolio or rentier investment).

Foreign Collaboration:

In recent years there-has been joint participation of foreign and domestic capital. India has been encouraging this form of import of foreign capital. There are three types of foreign collaborations— joint participation between private parties, between foreign firms and Indian Government and between foreign governments and Indian Government.

Inter-Government Loans:

Since the Second World War, there has been a growing tendency towards direct inter-government loans and grants. Marshall Aid was a massive system of American aid given to the war-devastated European countries to reconstruct their economies. Other advanced countries too provide grants and loans to Governments of less developed countries. With the spread of globalisation, this source has been shrinking very fast.

Loans from International Institutions:

Since 1946, the World Bank and its affiliates have been important suppliers of capital to India. International Monetary Fund (IMF), Aid India Consortium, Asian Development Bank (ADB) and the World Bank have been the major sources of external assistance to India in recent years.

2.1.5 Foreign Investment Approvals and Actual Inflows

After the announcement of New Industrial Policy (1991), there has been acceleration in the flow of foreign capital in India. As per data provided by the Government of India, during 1991-92 to 2005-2006, total foreign investment flows were of the order of $ 106 billion, out of which about $48.77 billion (45.9 per cent) were in the form of Foreign Direct Investment and the remaining $ 57.55 billion (54.1 per cent) were in the form of portfolio Investment. This clearly shows that the preference of foreign firms was more in favour of portfolio investment.

Foreign Investment Flows to India

	2000-1	2002-03	2003-04	2007-08	2008-09	2009-10	2012-13	2013-14	2014-15	2015-16
A. Foreign Direct Investment	3,272	3,217	2388	15,893	22,372	17,966	19,819	21,564	31,251	36,021
(i) In India	4,031	5,036	4,322	34,729	41,737	33,107	26,953	30763	35,283	44,907
(ii) Abroad	-759	-7,819	-1,934	-18,835	-19,365	-15,144	-7,134	-9,199	-4,031	-8,886
B. Portfolio Investment	2,590	944	11,356	27,433	-14,031	32,396	26,891	4,822	42,205	-4,130
(i) In India of which	2,760	979	11,356	27,271	-13,855	32,376	27,770	5,029	42,193	-3,643
FIIS	-	-	-	20,327	15,071	29,049	27,852	5,009	40,923	-4,016
GDRs/ADRs	-	-	-	6,645	1,162	3,328	187	20	1,271	373
(ii) Abroad	-170	-35	0	163	-177	20	-878	-207	11	-487
Foreign Investment in flows	5,862	4,862	13,744	43,326	8,342	50,363	46,711	26,386	73,456	31,891

Note:

1. Foreigners include investment flows by RBI automatic route and SIA/FIPB route.
2. Others include Euro-equities (GDR amounts raised by Indian Corporates) and Offshore funds and others.
3. Figures in brackets are percentages of total investment.

SOURCE: Economic Survey (2004-2005) and RBI Bulletin, March 2007.

Moreover, out of the total direct foreign investment of the order of $48.7 billion, nearly 9.4 per cent ($10 billion) was contributed by Non-resident Indians. Thus, the net contribution of foreign firms in direct investment was about 37 per cent of total foreign investment flows.

As a response to the policies of liberalisation, the foreign investors were very keen to undertake portfolio investment, including GDR (Global Depository Receipts) and investment by Foreign Institutional Investors, Euro equities and others rose sharply from $244 million in 1992-93 to $ 3,824 million in 1994-95 arid declined to $ 1,828 million in

1997-98. Portfolio investment became negative in 1998-99 but again improved to $2.76 billion in 2000-01, but again declined to nearly $ 1 billion in 2002-03 but touched a record level of 11.4 billion in 2003-04 and $ 12.5 billion in 2005-06. Actual flow during 2002 peaked to Rs. 21,286 crores-

TABLE 2: Direct Foreign Investments

Year	Direct foreign Investment (US $ Million)
2000-01	4031
2001-02	6125
2002-03	5036
2003-04	4322
2004-05	5987
2005-06	8901
2006-07	22739
2007-08	34729
2008-09	41436
2009-10	33109
2010-11	29029
2011-12	32952
2012-13	26953
2013-14	30763
2014-15	35283
2015-16	44907
2016-17	42215
2017-18	39431

SOURCE: RBI (Hanbook of Statustics of Indian Economy 2017-18

Data given in table 2 shows that total DFI proposals approved since 1991 till 2002 amounted to Rs. 2,90,854 crores against just Rs. 1,274 crores approved during the whole of the previous decade (1981-90). There is no doubt that it takes some time for all these proposals to fructify into actual inflows. Unfortunately, the actual flows as a proportion of approvals were low till 1997, but the situation has shown distinct improvement thereafter for FDI inflows of Rs. 1,14,409 crores for the period August 1991 to September 2006. This accounts for over 63 percent of the total FDI inflow. Out of this, nearly 49 percent of FDI inflows are in high priority areas like electrical equipment, transportation, telecommunications, fuel (Power and refinery), metallurgical industries, and cement.

Table 3: Sectors attracting highest FDI Inflows (from April 2000 to March 2017)

(Amount in Rs. Crore)

Rank	Sectors	Cumulative FDI Inflows	% share in total interms of US $
1.	Service Sector	316568	18%
2.	Computer Software & hardware	136789	7%
3.	Construction development	114639	7%
4.	Telecommunication	130164	7%
5.	Automobile Industry	92218	5%
6.	Drugs & Pharmaceutical	75820	4%
7.	Trading	84557	4%
8.	Chemicals (other than Fertilizers)	68952	4%
9.	Power	60087	3%
10.	Metallurgical	53074	3%

Source: *Department of Industrial Policy and Promotion*

However, the data do not reveal the full story estimated the share of consumer goods sector to be 15.3 per cent and that of capital goods and machinery 13.1 per cent and infrastructure 49.1 per cent in FDI approvals during August 1991 to October 1996. It gives an impression that relatively the share of the consumer goods sector is small, but in reality it is not so. This is due to the fact that although food processing accounted for just 6.5 per cent of total approved investment (Rs. 7,500 crores), Coca Cola alone received approvals worth Rs. 2,700 crores and Pepsi Rs. 1,000 crores. But these two soft drink giants since liberalisation are dominating the market. Since a number of consumer goods companies are setting up holding companies and subsidiaries, and the investment in them is not included in approved investment, the figures of approved investment understate the potential of these companies to influence market structures. For instance, Hindustan Lever has recently taken over a number of Indian firms (Brook Bond, Lipton), Tata Oil Mills and several other firms and created a subsidiary Unilever. Since investment in subsidiaries is not reflected in approved investment, these figures do not reflect the full potential of these firms to dominate the Indian market structure.

Table 4: Shares of TOP Investment countries in FDI inflows (From April 2000 to March 2017)

Amount in Rs. Crore

Rank	Country	Commulative Inflows	Percentage of Total inflows (in terms of US $)
1	Mauritius	585950	34%
2	Singapore	315042	16%
3	Japan	142260	8%
4	UK	125545	7%
5	Netherlands	117167	6%
6	USA	110532	6%
7	Germany	52045	3%
8	Cyprus	46731	3%
9	France	30637	2%
10	U.A.E.	26187	1%

(SOURCE : *Department of Industrial Policy and Promotion)*

Country wise Investment Approvals and Actual Inflows

Table 4 provides information about countrywise investment approvals and actual inflows. Although USA was at the top in approvals for the period 1991-2004 accounting for 19.9 per cent of total approvals, its share in actual inflows was 16.1 per cent. As against it, Mauritius accounted for 12.3 per cent in approvals, but its share in actual flows was of the order of 35.2 per cent. This was due to the fact that Mauritius is used as a tax shelter and investors belonging to several countries use it as a conduit to avoid payment of taxes. Next largest contributor of actual inflows was Non-Resident Indians (NRIs) who accounted for 9.7 per cent of total inflows. The other contributors to actual inflows of some significance were Japan, Germany, UK, Netherlands, South Korea, France and Singapore.

Table 4 also brings out the proportion of actual inflows to approvals. In this respect, NRIs record stands out distinctly superior to all countries accounting for about 91 per cent. Mauritius comes next and actual inflows were 94 per cent of approvals. Next in order was Japan, Netherlands, Germany, France and Singapore. In case of USA, the situation showed a wide gap and actual inflows were barely 26.4 per cent of approvals. It is vitally necessary to reduce the gap between approvals and actual inflows.

If we look at the sunario from 2000-2017 then Mauritius is leading with 34% followed by Singapore (16%), Japan (8%), U.K (7%) and USA is investing only 6% of the total inflows.

Table 5: Regionwise (Statewise) Breakup of FDI Inflows (from April 2000 to March 2017)

(Amount Rs. in Crores)

Sno	RBI's Regional Office	States Covered	Cummulative Inflows	% of total inflows (interms of US$)
1.	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	547733	31%
2.	New Delhi	Delhi, Part of UP and Haryana	371794	20%
3.	Chennai	Tamil Nadu & Pondicherry	133378	7%
4.	Bangolore	Karnataka	123212	7%
5.	Ahmedabad	Gujarat	91074	5%
6.	Hyderabad	Andhra Pardesh	74322	4%
7.	Kolkata	West Bengal, Sikkam, Andeman & Nicobar Island	21179	1%
8.	Kochi	Kerala, Lakshddeep	9789	1%
9.	Jaipur	Rajasthan	8237	0.4%
10.	Bhopal	Madhya Pardeshy, Chattishgarh	7129	0.4%

Source: Department of Industrial Policy & Promotion DIPP)

Data provided in Table 5 reveals that 6 destinations comprising of Delhi, Part of UP and Haryana, Maharashtra and adjoining regions, Karnataka, Andhra Pradesh and Gujarat had a total FDI inflow of the order of Rs. 81,473 crores (US $ 17.96 billion) out of the total FDI inflows in India during January 2000 to October 200 i.e. Rs. 1,21,766 crores or US$ 26.8 billion). In other words, there was heavy concentration of FID inflows in these 6 regions. It implies that 67 percent of FDI flows into developed regions with better infrastructure and connectivity, leaving the backward regions to receive some crumbs.

2.1.6 Policies towards Foreign investment

The main arguments put forth by the protagonists of liberalisation to permit larger doses of foreign collaborations are: The days of East India Company are over. The inflow of foreign collaborations through Multinational Corporations (MNCs) or their subsidiaries does not imply subjugation. The share of India in direct foreign investment when compared with China, Brazil, Mexico etc. is very low.

Foreign Direct Investment flows have increased fromUS$51.1 billion in 1992toaboutUS $233.2 billion by 2004 for all developing countries. Data given in table 7 reveal that India's share in Foreign Direct Investment increased from 0.5% in 1992 to 2.3% in 2004. As against it, China's share improved from 21.8% in 1992 to 26% in 2004. In absolute terms, whereas China's share was U S $60.6 billion in 2004, India's share was barely U S $ 5.34 billion. Obviously, India has not been able to benefit much from Foreign Direct Investment despite the red carpet spread by it for the foreign investors.

Table 6: Foreign Direct Investment by Host Region

(US $ million)

Country	1992	1995	2004
China	11156	35849	60630
India	233	2144	5340
Singapore	Na	Na	16060
South Korea	727	1357	7690
Malaysia	5138	5816	4620
Philippines	228	1459	470
Thailand	2114	2000	1060
All Developing Countries (including China)	51108	111884	233230
India’s share	0.5	1.9	2.3
China’s share	21.8	34.0	26.0

Source: United Nations, World Investment Report, 2005

Secondly, transfer of technology can also be affected with more investment being made by technologically advanced MNCs. These gains are not disputed by the critics, but the fact of the matter is that there are aspects of foreign direct investment which seriously impinge on people's welfare and national sovereignty. It is these aspects which need serious consideration.

Thirdly, 54 per cent of the Foreign Investment is in the nature of portfolio investment (financial investment) which only strengthens speculative trading in shares. The wisdom of permitting foreign companies to trade in the share market is punctuated by a question mark. This has led to an artificial boom in the share market and the BSE Sensitive Index touched a high mark of 4,282 on 18th June 1994. Earlier when the share market boom burst, the market came tumbling down and millions of small shareholders who entered the share market to have a quick buck, suffered very heavy losses, but the big sharks were able to manipulate the market to corner big gains for them. The securities boom resulted in a scam involving over Rs. 5,000 crore. The critics are of the view that although we feel jubilant over the strengthening of the

share market, but we do not realise the fact that we may be sitting on a volcano.

Even during 2001, the activities of MNCs resulted in wild fluctuations in BSE Sensitive Index which came tumbling down after budget 2001-2002 was presented to the parliament. The Government had to intervene so that confidence in the market is revived. This only underlines the fact that MNCs are able to manipulate the stock market to suit their goals.

During 2005 and 2007, BSE Sensitive index has risen to dizzy heights. At one time, it was thought that if it touches 14,000 mark, it will imply an unprecedented rise. But unfortunately, the main beneficiaries of stock exchange boom are big players. The Government is considering ways and means to restrict this sharp rise in BSE index.

Fourthly, foreign direct investment is catering to the needs of the upper middle and affluent classes, thus concentrating on the 180 million consumers in the Indian economy. In this sense, they feel a new consumer culture of colas, jams, ice creams, processed foods and the acquisition of durable consumer goods. Consequently, there is an utter neglect of the wage goods sector.

During 1993-94 to 2001 -02, the output of consumer durables increased at an annual average rate of 12.4 per cent, while that of wage goods was as low as 5.8 per cent. In other words, production instead of benefitting the masses is only catering to the needs of the upper classes. In this sense, the multinationals by entering into production of goods like potato chips, wafers, bakery products, food processing etc. are rapidly displacing labour working in the small scale sector since such units are faced with the stark prospects of closure being unable to compete with MNCs.

Thus both from the point of view of the pattern of production and employment, the unrestricted entry of multinationals in soft areas has dangerous inplications.

Fifthly, portfolio investment made in India is in the nature of hot money which may take to flight if the market signals indicate any adverse trends. Thus, it would be a mistake to treat portfolio investment as a stable factor in our growth.

Sixthly, a larger inflow of foreign direct investment, more so in the financial sector, will lead to building of reserves which in turn will expand domestic money supply. Consequently, inflationary trend of prices gets strengthened in the process. Moreover, the country is witnessing the growth of a vast non-banking financial and intermediate sector which may include foreign financial companies and mutual funds. If this sector grows at a very fast rate as is happening in India, it may render any efforts of monetary management by the Reserve Bank of India ineffective.

Finally, MNCs after their entry are rapidly increasing their shareholding in Indian companines and are thus swallowing Indian concerns. This has resulted in a number of takeovers by the MNCs and thus, the process of Indianisation of the corporate sector initiated by Jawaharlal Nehru has been totally reversed. This has given a serious setback

to Indian private sector. This explains the reason why leading industrialists of the Bombay Club or the All India Manufacturers Organisation (AIMO) have raised their voice against the "discriminatory" policies of the Government to woo foreign capital at the cost of indigenous capital.

2.1.7 Conclusion

The developmental programmes of the underdeveloped country depend much on building infrastructural facilities which require huge investment. Foreign capital can provide necessary support towards building such infrastructural facilities in the country. Foreign capital brings with it other factors like technical knowledge, research and development facilities, business experience etc. which are considered equally important for economic development. In order to meet the balance of payment crisis arising from the huge import required for importing capital goods, and other maintenance imports in the initial part of development process of a developing country like India, the flow of foreign capital can offer a temporary solution. Thus foreign capital is no doubt considered as an important source of resources for funding development projects. But while inviting foreign capital care must be taken to protect the interest of the country.

2.1.8 Short answer type questions

1. What is the need of foreign capital in India?
2. Write short notes on
   - (a) FDI
   - (b) Portfolio investment
   - (c) MNCs

2.1.9 Long answer type questions

1. Explain the status foreign capital in India after 1991.
2. Explain the role of foreign capital in economic development.

2.1.10 Recommended books

Datt and Sundaram	:	Indian Economy
P.K. Dhar	:	Indian Economy
Mishra and Puri	:	Indian Economy
A. N. Aggarwal	:	Indian Economy

Lesson No. 2.2 **Author : Dr. Manisha Sharma**

Foreign Trade in goods and services and balance of payments

2.2.1 Introduction

Foreign trade has been considered as an engine of growth and a poor country cannot afford the luxury of foregoing foreign trade. Foreign trade (a) permits proper use of the resources of the country ; (b) makes available necessary inputs for industrialisation; (c) provides outlet for surplus; production; and (rf) helps a country to deal with the periods a natural calamities (droughts, floods, etc.) through import of food grains and other necessary consumer goods. An appropriate and skillfully designed foreign trade policy is essential for the planned accelerated economic growth in a developing country.

2.2.2 Objectives of lesson

In this lesson we will discuss:

Volume of trade
Composition of trade
Direction of trade
Balance of Payment position

2.2.3 Trends and Features of India's Foreign Trade

The pattern of India's foreign trade before independence was that of a colonial and agricultural country. Most of the trade occurred with England and Common-Wealth countries. The Exports were mostly confined to a few primary commodities. The imports, on the other hand, consisted of manufactured articles. Though the balance of trade was favourable, but it concealed a low level of industrialisation in the country. After independence, the pattern, of India's foreign trade has undergone radical changes mainly as a result of industrial progress during five year plans. The changes can be studied under the following headings.

2.2.3.1 Volume of Trade

The volume of India's foreign trade has increased considerably during the planning period. It has increased from Rs. 1250 crores in 1950-51 to Rs. 3169 crores in 1970-71, Rs. 19260 crores in 1980-81 and Rs. 1161474 crores in 2005-06. The expansion was particularly very fast after 1970-71. The pattern of India's foreign trade was completely change as a result of economic development and industrialisation during the planning period,. It is no longer confined to a few countries or few commodities. Now India-has trade relations with almost all the countries of the world. Exports cover over 9300 commodities to about 60 countries. Imports from about 180 countries accounts for over 8200 commodities. Changes in the volume of India's foreign trade during the planning period are shown in Table 1.

Table 1: Volume of India's Foreign Trade (in crore Rs.)

Year	Imports	Exports	Total	Export Import ratio (%)	Balance of Trade
1950-51	650	600	1250	92.3	-50
1960-61	1140	660	1800	57.9	-480
1970-71	1634	1535	3169	93.9	- 101
1980-81	12549	6711	19260	53.5	- 5838
1985-86	19658	10895	30553	55.4	-8763
1990-91	43193	32553	75746	75.4	- 10640
1995-96	122678	106353	229031	86.7	- 16325
1999-2000	204583	162925	367508	79.6	- 41658
2000-01	280873	203571	434344	88.2	- 27302
2005-06	660409	501065	1161474	75.8	- 159344
2010-11	1683467	1142922	2826389	67.9	-540545
2014-15	2737087	1896445	4633532	69.3	-840642
2015-16	2490306	1716384	4206690	68.9	-773922
2016-17	2577675	1849434	4427109	71.7	-728241

Source: Economic Survey 2007-08, Govt. of India, RBI

Table 1 reveals

a. The total volume of India's foreign trade (i.e.. including imports and exports) have increased from Rs.1250 crores in 1950-51 to Rs. 1161474 crores in 2005-06. The increase has been more than 900 times.

b. The value of India's imports has increased from Rs. 650 crores in 1950-51 to Rs. 660409 in 2005-06, thus registering an about 1000 times increase.

c. The value of India's exports, which was Rs. 600 crores in 1950-51, increased to Rs. 501065 crores in 2005-06. The value of exports increased by about 800 times.

d. Over the years, the value of imports has increased much faster than that of exports.

2.2.3.2 Composition of Trade

Composition of foreign trade refers to the composition of imports and exports. A study of the changes in the composition of foreign trade helps us to analyse the rate and direction of economic progress in the economy. For example, the speed at which a country's imports of manufactured products decline and export of such products increase is considered as an indication of the speed of economic development in the country. Since independence the composition of India's foreign trade has changed in accordance with the economic progress of the country. These changes are studied under the following two heads.

1. Changes in the Composition of Imports. After independence, as a result of the changing requirements of the process of industrialisation, there has been a shift in India's import trade from primary products to capital goods and Other intermediate manufactures. Previously, during the first two plans (i.e., from 1950-51 to 1960-61), India's major imports consisted of food grains, cotton, jute, etc. But, after that the trend has changed. Now the import of primary fertilisers iron and steel, non-ferrous metals, and other industrial inputs has increased substantially. The changes in the composition of imports have occurred to meet the consumption and investment needs of the growing economy.

2. Changes in the Composition of Exports. As a result of industrial progress during the planning period, there has been an increasing diversification of Indian exports over the years. Before independence and during the initial years of planning, India's major exports were primary products like tea, jute, cotton, textile. As the economy progressed, a large number of finished goods, like capital goods and other engineering items, chemical and chemical products, leather and leather manufactures, readymade garments, handicrafts, etc. have entered the export list and their share has increased considerably. Since the beginning of 1980's crude petroleum has emerged as a significant item in Indian exports. The transformation in the composition of India's exports has

been made possible because of rapid growth and diversification of Indian industries.

Table-2: Composition of India's Foreign Trade

(Percentage of total imports and exports)

Sno	Commodity Groups	1960-61	1985-86	1999-2000	2005-06	2016-17
			Import			
	Food arid live animals chiefly for food.	19.1	4.3	5.6	2.5	5.6
	Raw materials and intermediate manufactures	49.2	73.9	84.0	80.3	N.A
	Capital Goods	31.7	21.8	11.4	16.8	25.3
	Others					
	Total	100.0	100.0	100.0	100.0	100.0
			Exports			
	Agriculture and allied products	42.2	27.7	14.6	10.2	12.3
	Ores and minerals (excluding coal)	8.1	7.2	2.4	5.2	1.9
	Manufactured goods	45.3	58.5	81.6	72.0	73.6
	Others	2.4	6.6	1.5	12.6	-
	Total	100.0	100.0	100.0	100.0	100.0

Table-2 gives the percentage share of broad commodity groups in India's total imports and exports. Among the imports : (a) The share of food and live animals has declined sharply from 19.1% in 1960-61 to 2.5% in 2005-06. (b) The share of raw materials and intermediate manufactures (particularly of petroleum oil and lubricants, fertilisers, and pearls and precious stones) has increased considerably from 47.0% in 1960-61 to 80.3% in 2005-06. In 2002-03, it was 61.2% (c) Capital goods had accounted for about one-third of imports in 1960-61 which fell to around one-tenth in 2005-06.

Among exports : (a) The share of agriculture and allied products has declined from 42.2% in 1960-61 to 10.2% in 2005-06. (b) On the other hand, the share of manufactured goods (particularly of readymade garments, leather and leather manufactures, and handicrafts) has increased sharply from 45.3% in 1960-61 to 72.0% in 2005-06.

2.2.3.3 Direction of Trade

Before independence, the direction of India's foreign trade was determined not on the basis of the principle of comparative cost advantage, but according to India's colonial relation with England and its colonies or allies. After independence, as India's political and economic relations with other countries developed, its trade also expanded to many new directions. The direction of both imports and exports of India has changed significantly. At present, India's major trading partners are : U.S.A., U.K., U.S.S.R., Japan, Germany, France, Iran, Belgium, Saudi Arabia. Changes in the direction of India's foreign trade over the years are given in Table 3.

Table 3: Direction of India's Foreign Trade

(Percentage of total imports and exports)

Countries	Imports			Exports		
	1960-61	1990-91	2016-17	1960-61	1990-91	2016-17
Belgium	1.4	6.3	1.7	0.8	3.9	2.0
Germony	10.9	8.0	3.0	3.7	7.8	2.6
U.K	19.4	6.7	1.0	26.8	6.5	3.1
U.S.A	29.2	12.1	5.8	16.0	14.7	15.3
Switzerland	-	1.1	4.5	-	1.2	0.3
Japan	5.4	7.5	2.5	3.4	9.3	1.4
OPEC	4.6	16.3	24.1	4.1	5.6	16.4
Russia	1.4	5.9	1.4	4.5	16.1	0.7
Developing Nations	11.8	18.6	43.2	14.8	17.1	43.5
Others	2.2	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

(Sources: Indian Economy, V.K. Puri & S.K. Mishra)

1. Changes in the Direction of Imports. The following are the major trends in the direction of India's import trade.

(i) Formerly, there were many countries with whom we had no or insignificant trade. But, at present, we have trade relations with most of the countries of the world.

(ii) There has been rapid increase in the imports from almost all the countries, with spectacular increase in case of a few countries.

(iii) In the year 1950-51, the combined share of U.K. and U.S.A. in India's imports was 39.1%; U.K.'s share was 20.8% and U.S.A.'s share was 18.3%. The combined share of these two countries declined to 35.5% in 1970-71, to 18.7% in 1980-81 and to 11.7% in 2000-03. England's share has declined faster than that of America and at present there is a change in the relative position of U.K. and U.S.A. with the latter pushing down the former in the lower position.

(iv) India's imports from other developed countries have expanded rapidly during the planning period. For example, imports from Japan have increased from 3.0% in 1950-51 to 5.0% in 2002-03 and from Belgium increased from 1.4% in 1950-51 to 6.0% in 2002-03. Germany's share in India's imports was 11 % in 1960-61 and 3.9% in 2002-03.

(v) Another significant development is the emergence of socialist countries as major sources of India's imports. Imports from U.S.S.R., which were negligible in 1950-51, have increased rapidly from 1.4% in 1960-61 to 8.1% in 1980-81. Imports from Russia were 1.0% in 2002-03.

(vi) The joint share of oil producing countries, i.e., Iran, Iraq, Kuwait and Saudi Arabia, in India's imports has increased considerably from 7.7% in 1970-71 to 27.8% in 1980-81. The share has, however, fallen to 5.3% in 2002-03.

(vii) The share of developing countries in India's imports is steadily increasing from 11.8% in 1960-61 to 14.6% in 1970-71 and 18.4% in 1990-91. In 2002-03 it was 19.6%.

(viii) At present (2002-03), India's biggest suppliers are : Asia, U.S.A., Belgium, U.K., Japan, Saudi Arabia, Germany, Kuwait and Africa. These countries account for 43.4% of India's total imports.

(ix) In main reasons for the diversification and increase in the sources of India's imports and relative decrease in England's share after independence are : (a) diversified and increasing demand for imports arising from development requirements; (b) availability of goods of required quality and at cheaper prices in countries other than U.K. (c) rapid increase in the price of certain goods, particularly that of petroleum and petroleum products ; (d) bilateral trade agreements with socialist countries; (e) nature of aid and grants necessitating trade with countries other than U.K.; etc.

2. Changes in the Direction of Exports. The direction of India's exports has also undergone fundamental changes during the planning period. Main features of the changes in the direction of India's exports are given below:

(i) There has been an ever-expanding geographical diversification of India's exports since independence. The number of countries purchasing India's exports and the quantity of exports to these countries are continuously increasing.

(ii) During the first decade of planning period, India depended on U.K. and U.S.A. for bulk of its exports. The combined share of U.K. and U.S.A. in the years 1950-51 and 1960-61 were 42.6% and 43% respectively. This share fall to 25.4% in 2002-03.

(iii) After 1960-61, England's share in India's exports has been steadily decreasing. It has declined from 27% in 1960-61 to 4.7% in 2002-03, U.K. has shifted from its top position in 1950-51 to a lower rank.

(iv) America, however, continues to maintain its position among the biggest purchasers of Indian exports. Its share in India's exports was 16% in 1960-61, 18.5% in 1987-88 and 20.7% in 2002-03.

(v) Since 1960-61, exports to other advanced countries has been expanding at a rapid speed. Russia's share in India's exports has increased significantly from a mere 1.8% in 1950-51 to 16% in 1989-90. Now it has declined to 1.1% in 2002-03. Similarly, the share of Japan rose from 1.7% in 1950-51 to 3.5% in 2002-03 and the share of Germany increased from 3% in 1960-61 to 4.0% in 2002-03.

(vi) At present (2002-03), U.S.A. occupies the top position among the buyers of India's exports, followed by Asian countries, U.K., Germany, Japan, Belgium, Africa in the descending order. These countries account for 65% of India's total exports.

(vii) Most of India's exports are still directed towards advanced countries. The share of developing countries which was 20% in 1970-71 has become 30.8% in 1999-2000. However, there is good potential for expansion of exports in these countries.

(viii) The main reason for these changes in the direction of India's exports is that during the process of economic development there arose a need for finding new markets (a) for the traditional products and (b) for rapidly expanding exports of non-traditional products made possible through diversified industrial growth.

Table 4 Recent Trade Partners of India (% Share)

Countries	Imports				Exports			
	2003-04	2004-05	2005-06	2016-17	2003-04	2004-05	2005-06	2016-17
1. U.S.A.	5.9	5.5	5.8	5.8	17.0	6.7	15.3	15.3
2. U.K.	3.2	2.7	2.2	0.95	4.0	5.6	4.4	3.09
3. Belgium	4.3	3.3	2.2	1.7	3.0	2.0	2.6	2.05
4. Germany	3.6	4.1	4.1	3.1	3.0	3.4	3.2	2.6
5. Japan	3.0	2.5	2.5	2.5	2.0	2.4	2.0	1.4
6, Switzerland	5.4	4.6	4.5	4.5	1.0	0.5	0.3	0.3
7. Hong-Kong	1.6	1.5	1.4	2.1	5.0	4.3	3.7	5.08
8. U.A.E.	4.3	3.0	5.1	5.6	9.0	8.4	10.1	11.3
9. China	6.3	7.5	9.2	-	6.0	6.5	5.6	-
10. Singapore	2.1	2.3	3.1	1.8	5.0	5.4	5.8	3.5
11. Malaysia	2.4	1.7	3.0	2.3	1.0	1.1	1.0	1.9
12. Australia	3.3	3.4	3.9	3.0	1.0	0.8	0.8	1.07
13. Others	-	-	-	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Survey ,RBI

3. Recent position in India's Direction of Trade.

Table-4 shows the recent position in India's direction of foreign trade, it indicates the country's major trade partners (i.e., the countries from which India imports and those to which it exports) along with their percent shares in India's imports as well as exports in the recent years. At present, the important countries trading with India are: U.S.A., U.A.E, U.K., Belgium, Germany, Japan, Switzerland, Hong-Kong, China, Singapore, Malaysia and Australia. India's major imports with their values are given in Table- 5

Table 5: Major Imports of India (Value in Rs. Crore)

Commodity	1970-71	1990-91	2000-01	2005-06	2012-13	2016-17
1. Machines	328	5942	19142	55741	187630	243510
2. Iron and Steel	147	2113	3589	20241	96310	94210
3. Non-ferrous metals	119	1102	2462	58271	49180	82580
4. Petroleum and petroleum products	137	10816	71497	19464	891870	700320
5. Transport equipment	67	1670	4353	39131	115830	146510

6. Chemicals	68	2289	1542	35582	26450	42940
7. Fertilizers	86	1766	3034	8815	47720	34650
8. Paper and paper boards	25	456	2005	4180	-	-
9. Precious stones	25	3738	22101	40441	123170	220970
10. Cotton and Wool	114	183	1643	1607	2470	6310
11. Edibboils	23	326	6093	8961	61270	75000
12. Others	-	-	-	-	-	-
Total	1634	43198	230873	66040		

India's major exports along with their values over the years shown in Table 6.

Table 6: Major Exports of India (Value in Rs. Crore)

Commodity	**1970-71**	**1990-91**	**2000-01**	**2005-06**	**2012-13**	**2016-17**
1. Jute manufacturers	190	298	932	1318	1990	2160
2. Tea	148	1070	1976	1589	4720	5400
3. Cotton fabrics	142	2100	1603	17456	52240	66120
4. Readymade garments	29	4012	2547	37952	70450	107640
5. Matallic ore	164	1497	4139	23733	29700	33820
6. Spices	39	239	1619	2116	15180	20020
7. Cashew kernels	57	447	1883	2594	4070	5950
8. Tobacco	33	263	871	1032	5030	6020
9. Leather and leather products	80	2600	8914	11915	26,000	34080
10. Handicrafts	73	6167	5097	5683	5390	11750
11. Engineering goods	198	3872	3187	94369	321920	507390
12. Coffee	25	252	.1180	1731	4710	6250
13. Others	-	. -	-	-	-	-
Total	1634	43198	2308	50106	775400	806600

2.2.4 BALANCE OF PAYMENTS

The balance of payments of a country is systematic record of all transactions between the 'residents' of a country and the rest of the world during given period of time. The balance of payments statement consists of two parts : (a) current account and (b) capital account. The current account of the balance of payments statement includes (i) visible trade relating to merchandise imports and exports (also known as balance of trade account) and (ii) invisible transactions relating to such services as travel, shipping, banking, insurance, etc. The capital account of the balance of payments statement deals with the financial transactions. It includes all types of short-term and long-term international movements of capital. When the current

account of balance of payments shows a deficit or a surplus, the balance is restored through changes in the capital account.

2.2.4.1 Trends in Balance of Payments

The developing countries like India generally experience an unfavourable balance of payments mainly because of developmental imports and inability to promote exports. Table 7 shows trends of India's balance of payments during the five year plans:

Table 7: Trends in India's Balance of Payments

(in crore Rs.)

Period	Balance Trade	Net Invisible	Balance Payments	Annual Average
Plan I (1951-56)	-542	+ 500	-42	-8.4
Plan II (1956-61)	-2339	+614	- 1725	- 345.0
Plan III (1961-66)	-2383	+ 432	- 1951	- 390.0
Annual Plans (1966-69)	-2087	+ 52	-2015	- 671.7
Plan IV	- 1564	+ 1664	+ 100	+ 20.0
Plan V	- 3179	+ 6261	+ 3082	+ 770.5
Plan VI	- 30456	+ 18551	- 11905	- 2381.0
(1980-85)				
Plan VII	- 54204	+ 13157	- 41047	- 8209.4
(1985-90)	-9586	+ 3630	-5927	
1990-91	- 16934	-435	- 17369	
1991-92	-6495	425	-2237	
Plan VIII	- 149002	85932	- 62870	- 12574
(1992-97)				-
2000-01	- 56737	45139	- 11598	-
2001-02	- 54955	71381	18426	-
2002-03	- 51694	52357	30662	-
2003-04	- 63386	127389	63983	-
2004-05	- 151765	139591	- 12174	-
2005-06	- 229426	188704	- 40722	-
2010-11	-580470	360817	-219653	-
2016-17	-754452	657536	-96916	-

1. Plan I (1951 -56):

During the First Five Year Plan, there was an overall deficit in the balance of trade of Rs. 542 crores. But because of the surplus earnings of Rs. 500 crores from net invisible, the adverse balance of payments was only of Rs. 42 crores. The average annual deficit in the balance of payments during the First Five Year Plan was merely 8.4 crores. This relatively easy balance of payments position was due to the following factors : (a) Korean war pushed up exports, *(b)* Favourable monsoon increased food production at home which led to the decline of food imports, (c) There were large earnings from invisible.

2. Plan II (1956-61):

The Second Five Year Plan faced a difficult balance of payments position. There was huge trade deficit of Rs. 2339 crores. Against this, the surplus on invisible trade was Rs. 614 crores. Thus, the country experienced an overall deficit of Rs. 1725 crores in the balance of payments. The average annual deficit was Rs. 345 crores. The main causes of unfavourable balance of payments were : (a) large scale imports of capital goods to develop basic and heavy industries; (b) failure of agricultural production; (c) inability of the country to expand exports.

3. Plan III (1961-66):

During the Third Five Year Plan, the overall deficit in the balance of trade was Rs. 2383 crores and the surplus in net invisible was Rs. 432 crores. As a result, the overall deficit in the balance of.paymcnts was Rs.1951 crores; the average annual deficit was 390.2 crores. Large deficits in the balance of trade continued during all the five years of the plan because of defence and development imports on the one hand and sluggish exports on the other. This imbalance in the current account was financed by loans from foreign countries, foreign assistance, i.e.. PL-480 funds, and withdrawals from IMF, IBRD, etc.

4. Three Annual Plans (1966-69):

The balance of payments position further worsened during the three annual plans (1966-69). The overall deficit in trade balance was of Rs. 2087 crores, and the overall surplus on invisible was merely Rs. 52 crores. Thus, the resulting deficit in the balance of payments was of Rs. 2015 crores. The average annual deficit was Rs. 672 crores. The various factors which led to the deterioration in the situation were : (a) heavy import of food grains to meet the conditions of draught and famine during the first and second annual plans; and (b) the large outflow of funds in the form of interest payments of loans.

5. Plan IV (1969-74):

There was an improvement in the balance of payment situation and the unfavourable trend reversed in the Fourth Five Year Plan. The aggregate balance of payments showed a surplus of Rs. 100 crores. The deficit in the balance of trade was of Rs. 1564 crores and the surplus on invisible was of Rs. 1664 crores. The main factors responsible for the improvement in the balance of payment situation included (a) reduction in the import of food grains due to expansion in the agricultural production; (b) initiation of

the programmes of import substitution and export promotion; (c) receipt of PL-480 funds from U.S.A. in 1973-74.

6. Plan V (1974-78):

During the Fifth Plan (1974-78), the balance of trade had a deficit of Rs. 3179 crores. But, there was a sharp increase in the earnings from invisible which rose to Rs. 6261. As a result, there was an overall surplus of Rs. 3082 crores in the balance of payments. The main factors responsible for increase in huge surplus on invisible were : (a) anti-smuggling measures; (b) stability in the external value of the rupee; (c) increase in tourism; (d) expansion in the earnings from technical, consultancy and contracting services; and (e) increase in remittances from Indian nationals from abroad.

7. Plan VI (1980-85):

The favourable balance of payments trend was again reversed in the Sixth Five Year Plan. The balance of payments consistently remained adverse during all the five years of the plan. The overall deficit in the balance of payments was Rs. 11905 crores; the average annual deficit was Rs. 2381 crores. The deficit in the balance of trade was Rs. 30456 crores and the earnings from invisible were Rs. 18551 crores. The main factors responsible for adverse balance of payments during the Sixth Plan were : (a) liberal import policy; (b) steep rise in world prices of petroleum and related products; (c) unsatisfactory performance on the export front due to various international and domestic factors, such as, severe international recession in 1980-83 and the accompanying stagnation in the world trade, protectionist policies of the developed countries, high cost and diminishing competitiveness of Indian.exports, predominance of domestic markets, etc.

8. Plan VII (1985-90):

The balance of payments situation continued to be under pressure throughout the Seventh Five Year Plan. The deficit in the balance of payments was Rs. 5927 crores in 1985-86 and Rs. 11382 crores in 1989-90. This further deterioration in the balance of payments situation during the Seventh Plan has been due to the following factors : (a) decle-ration in the growth of domestic oil production; (b) protectionist tendencies abroad; (c) volatility of major international currencies; (d) bunching of repayment obligations of IMF and- other sources;* (e) unfavourable climate for concessional assistance; (J) gulf war.

9. Plan VIII (1992-97):

The balance of payment position was under pressure since 1988-89. The situation improved a little in 1989-90, but deteriorated again in 1990-91 due to Gulf crises. In addition to a massive trade deficit, there was deterioration in the invisible account as well because of lower remittances and higher interest payments. Political uncertainly at home, coupled with rising inflation and widening fiscal deficits led to a loss of international confidence. To overcome the balance of payment crises, the government initiated various policy reforms, such as (a) downward adjustment in exchange rate in July 1991, (b) liberalised exchange rate management system (LERMS) in 1992-93 budget which

constituted a dual exchange rate mcchanifu, (c) full convertibility of rupee in 1994, (d) far-reaching changes in the industrial and trade policies.

Table 8: Recent balance of payments position

(as percent of GDP)

Year	Exports	Imports	Trade balance	Invisible balance	Current account balance
1990-91	5.8	8.8	-3.0	-0.1	-3.1
1995-96	9.1	12.3	-3.2	1.6	- 1.7
2000-01	9.8	13.0	-3.2	2.3	-0.8
2001-02	9.4	12.0	-2.6	2.8	0.2
2002-03	10.3	12.8	-2.5	3.3	0.8
2003-04	11.0	13.3	-2.3	4.6	2.3
2004-05	12.2	17.1	-4.9	4.5	-0.4
2005-06	13.1	19.1	-6.4	5.3	- 1.1
2010-11	15.0	22.4	-7.4	4.6	-2.8
2015-16	12.7	18.9	6.2	5.1	-1.1
2016-17	12.3	17.3	-5	4.3	-0.6

RBI, Handbook of Statistics on Indian Economy 2017-18

10. Recent Balance of Payments Position:

As a result of strong fiscal stabilisation measures, there has been a definite improvement in the balance of payments position in the recent years. Table 5 shows that as a percentage of Gross Domestic Product (GDP), trade balance deficit has declined from 3.0 in 1990-91 to 2.6 in 2001-02 and 2.3 in 2003-04. However, it increased 4.9 in 2004-05 and 6.4 in 2005-06 due to sharp increase in imports and prices of petroleum and petroleum products. Similarly, country's current account balance has over the years in 1990-91 to -0.8% of GDP in 2000-01, and a surplus balance of 0.2% of GDP in 2001-02 and 0.8% of GDP. The improvement in current account balance in India's balance of payments in recent years is, however, attributable mainly to the expanding invisibles surpluses.

General Conclusions

The broad conclusions regarding the trends in the balance of payments in India are given below:

(i) Almost throughout the plan period, India has been facing the problem of continuously rising deficits in the balance of payments. To begin with, in the First Plan, these deficits were very small, but as the planning progressed, the deficits also increased in size.

(ii) The adverse balance of payments have been largely due to the deficits in the

balance of trade.

(iii) The deficits in the balance of trade were mostly on account of the visible balance i.e., the merchandise trade of exports and imports). The invisibles (such as, travel, transportation, investment income, etc.) generally showed surplus, thus helping in reducing the deficit in trade balance.

(iv) Various sources have been drawn upon from time to time to meet these deficits. These sources are: external assistance, withdrawals from IMF, use of own reserves. Most of the time, external assistance dominated.

(v) Deficits in the balance of payments have been closely associated with the planned development efforts. They were mainly caused by large scale imports required for the industrialisation of the economy.

2.2.4.2 Causes of Adverse Balance of Payments

Broadly speaking, the trends of unfavou-rable balance of payments in India are caused by (a) rapid increase in imports and (b) slow increase in exports.

The various factors responsible for these two developments are as follows:

1. Development Imports:

Heavy development imports have been the most important cause of unfavourable balance of payments. In the initial stages of industrialisation, the development imports consisted of capital goods, i.e., machines, etc., to establish heavy and basic industries. Later on the import of maintenance goods become necessary for repairs and replacement. The imports of intermediate goods, i.e., raw materials, etc., were also needed to facilitate industrial production.

2. Import of Consumption Goods:

During the periods of droughts and famines, the imports of foodgrains and other essential consumption goods increased considerably.

3. Import of War Materials:

Due to the hostile attitude of the neighbourly countries, i.e., China and Pakistan, India has to import war materials to meet its defence needs. These imports also led to the deficits in the balance of payments.

4. Setting up of Embassies:

After independence, India was required to set up large number of embassies in other countries. This caused heavy expenditure abroad.

5. Increase in Import Prices:

Rise in imports is not merely due to increase in the volume of imports, but also due to the increase in the value of imports. Since 1973-74, here has been a sharp increase in the import prices of petroleum and petroleum products. This has considerably increased India's import bill.

6. Slow Growth of Exports:

Increase in the imports would not have posed a problem had there been a simultaneous and substantial growth in exports. No doubt, there has been an increase in Indian exports, they did not increase as rapidly as imports. Slow growth of exports has also contributed to the adverse balance of payments.

7. Fluctuations in Exports:

Indian exports, particularly those of primary products have not been growing continuously. They have been experiencing fluctuations due to the ups and downs in the agricultural output in the country.

8. Foreign Competition:

Foreign competition also affected the growth of Indian exports adversely. For example, for its traditional exports of jute, tea and cotton textiles, India has to face tough competition from Bangla Desh, Sri Lanka and East Africa respectively.

9. Difficulties for Non-Traditional Exports:

The international trading environment for India's exports of non-traditional manufactured goods has not been favourable particularly in the recent years. Recession in the industrialised countries and increased protectionism in the world economy during 1980's have serious repercussions in the export prospects of India.

10. Increase in Domestic Demand:

Continuously increasing domestic demand is another factor restricting the growth of Indian exports. For example, rapidly rising local demand for goods like tea, oilseeds, iron has affected their exports.

11. Payment of Interest:

Large outflow of funds in the form of payment of interest on the loans has also worsened the unfavourable balance of payments situation in India.

12. Gulf Crisis:

The seven-month Gulf crisis (August 2, 1990- February 28, 1991) had seriously adverse impact on India's balance of payments position. Its immediate effects were : (a) rise in the petroleum, oil and lubricants (POL) import bill due to the rise in oil prices; (b) decline in workers' remittances; and (c) additional burden of repatriating and rehabilitating non-resident Indians from the affected zone in West Asia.

2.2.4.3 Measures to Correct Adverse Balance of Payments

Disequilibrium in the balance of payments is the result of excess of imports over exports. Therefore, the solution to the problem of adverse balance of payments lies in the efforts directed towards (a) reducing the imports and (b) expanding the exports.

Various measures suggested and also undertaken by the government of India are as follows:

1. Restriction on Imports:

An important method to correct the adverse balance of payments is to restrict the imports to the minimum possible limit. This is done by taking the following measures : (a) discouraging the import of non-essential items; (b) issuing licences for the import of essentia1 goods; (c) fixing of import quotas; (d) imposing of import duties; (e) production of imported goods within the country; (f) popularising the consumption of indigenous goods.

2. Import Substitution:

Import substitution means producing at home the goods which mere previously being imported. The method of import substitution aims at reducing imports by increasing their production within the country. Since the beginning of the Second Five Year Plan, Indian has been encouraging import substitution.

3. Export Promotion:

Export promotion is the essential component of any policy correcting disequilibrium in the balance of payments. Measures promoting exports include: (a) maintenance and increase of traditional exports ; (b) promotion of non-traditional exports ; (c) provision of various facilities to develop exporting industries ; (d) reduction costs and prices ; (e) improvement in the quality and competitiveness of exports ; (J) expansion of foreign markets and wide publicity of exports in these markets ; (g) control on the domestic consumption of goods having good export potential. The government of india has undertaken a number of monetary, fiscal, industrial and institutional measures to promote exports.

4. Devaluation:

Devaluation means the official reduction in the external value of a country's currency. When a country devalues its currency, its exports become cheaper and imports dearer. This will promote exports, discourage imports and thus help in reducing deficit in the balance of payments. India resorted to devaluation first in 1946 and then in 1966. On July 1 and 3, 1991, Indian rupee was again devalued by about 20% (combined) against five major currencies of the world.

5. Trade Agreements:

In order to promote foreign trade, the government can make trade agreements with other countries. India has entered bilateral trade agreements with many countries like Bangla Desh, Bulgaria, France, Germany, Iran, Iraq, Korea, etc.

6. Encouragement to Foreign Tourists

Foreign exchange can also be earned through foreign tourists. Thus, efforts must be made to encourage the tourist trade. Indian government has set up a separate Ministry of Tourism at the centre. The government provides several facilities as well as develops various tourist spots to attract tourists to visit India.

2.2.5 Foreign Trade Policy of India

A country's foreign trade policy relates to various aspects of its exchange with the rest of the world. The foreign trade policy of a developing country like India is essentially growth-oriented. It is guided by the country's general objective of industrialisation. Such a policy aims at achieving the twin objectives of (a) promoting exports and (b) restricting as well as substituting imports. Thus, there are two main constituents of foreign trade policy ; (a) Import policy and (b) export policy.

2.2.5.1 Import Policy

The import policy deals with four questions:

(a) what products should be imported?
(b) What should be their quantities?
(c) Who should be allowed to import?
(d) From which source the imports may be allowed?

India requires a development-oriented import policy. Such a policy cannot be a laissez- faire policy, i.e., allowing unrestricted imports of all kinds. The proper import policy for a developing country includes measures

(a) encouraging certain essential imports;
(b) discouraging unessential imports ;
(c) keeping the quantities of imports within the specified limits ; and
(d) adopting all sorts of import instruments, like tariffs, quotes, licenses, etc., for the implementation of import policy.

After independence, India's import policy has been formulated keeping in view:

(a) the limited foreign exchange reserves of the country;
(b) shortages of essential commodities in the country;
(c) capital goods requirements for the development of basic and heavy industries in the country;
(d) scope of import substitution; and
(e) needs of export industries.

Import Substitution

Import substitution has been the important constituent of India's import policy during the entire planning period. Import substitution means production at home what is being imported from abroad. The policy of import substitution aims at achieving two broad objectives ; (a) to save foreign exchange for the import of more essential goods ; (b) to achieve self-sufficiency in the production of as many goods as possible. Through time, three stages of the policy of import substitution may be distinguished : (a) In the earlier stage there was import substitution of consumer goods, (b) In the second stage, the emphasis shifted to the substitution of the import of capital goods, (c) In the third, stage, which continues till today, the emphasis is on reducing the dependence on imported technology by developing the indigenous

technology.

The policy of import substitution has significant impact on the structure of imports and industrial growth. As .a result of this policy, many products which were previously imported are now being produced within the country. The production of a number of products like iron and steel, automobiles, railway wagons, textile machinery, machine tools, etc. has increased considerably as a result of this policy.

The policy of import substitution has serious drawbacks : (a) The import substitution policy is accompanied by strict control over imports. Under the system of protection, many industrial units became inefficient, thus producing low quality goods at high costs, (b) Under the cover of protection, some non-priority industries (such as, TV. sets, refrigerators, synthetic fibres, etc.) developed on uneconomic scale, ignoring the principle of social essentiality, (c) The rate of industrial production which accelerated before the mid sixtees showed a declining tendency later on. The decline was larger in the basic capital goods industries as compared to the consumer goods industries, (d) Moreover, exports earnings did not rise enough to meet the increasing import bill thus worsening the balance of payments position.

As a consequence of the limitations of import substitution policy and other unhealthy developments, the government, since early 1970's has been emphasising the importance of export promotion measures in the plans. At present, the strategy of export promotion has been given priority over that of import substitution in the country's import-export policy.

2.2.5.2 Export Policy

Export policy refers to the measures influencing the level and composition of exports of a country. Indians export policy has been primarily that of promoting exports. The broad strategy has been to identify sectors, industries and products having good export potential and provide a policy framework for their export growth.

Export Promotion

India has been following a policy of export promotion. Its export strategy is guided by the considerations of:

(a) promoting the exports of those projects in which the country has long term comparative advantage ;

(b) encouraging diversification in terms of products and markets ;

(c) increasing the bargaining power of exports; and

(d) reducing the costs of exports. Keeping in view these guidelines, the government of India has undertaken a series of measures for export promotion. These measures can be discussed under two main headings:

The government has undertaken various measures relating to fiscal, monetary and industrial policies to promote exports of the country. They arc as given below:

1. Duty Drawback Scheme: The term 'duty drawback' means repayment of duties earlier collected. Under the duty drawback scheme, the duties of customs and central excise paid on the raw material and components used in export production are reimbursed to the exporters. About 80% of the amount disbursed is determined on the basis 'all industry' rates of draw-backs which applies to all goods irrespective of the manufactures. The remaining 20% is determined according to the 'brand rates' which applies to the products of the individual manufactures.

2. Cash Compensatory Support (CCS): Cash assistance for exports, later on termed as Cash Compensatory Support (CCS), was introduced in 1966. The scheme is selective and the assistance is given in the form of compensation to the Indian exporters for unrcbated indirect taxes paid on inputs of the exported products and for certain other specified disadvantages. The scope of the scheme has been steadily extended over the years.

3. Supply of Inputs at International prices: To encourage export production, the government has started a scheme of supplying selected indigenous raw materials at international prices. Under this scheme, the difference between the domestic price and the international price is reimbursed to the exporter. This scheme covers items like polycstar, sulfuric acid, rubber, raw cotton, iron and steel; diescl; etc.

4. Transport Facilities: Efforts haveD been made to provide transport facilities to the exporters. The exporters can complete all export formalities and handover their cargo containers at Inland Container Depots (ICDs) established at Delhi, Banglore, Coimbatore, Anaparty, Guntur, Guwahati and Ludhiana. These ICDs have all facilities of dry port and thus facilitate the movement of exports and imports.

5. Free Trade Zones: Free trade zones or export processing zones arc intended to provide an internationally competitive duty-free environment for export production. Earlier there were two Free Trade Zones.

6. Export Finance: The government and Reserve Bank of India have taken various measures to extend finance to the exporters at reasonable rate of interest. The exporters can get both preshipment and post-shipment credit from commercial banks at concessional interest rates.

7. Export-Import Bank (EXIM): A specialised Export-Import Bank has been set up to facilitate export finance. The bank has been supporting suppliers' credit as well as providing buyers' credit. Suppliers' credit occurs where Indian exporters offer credit directly to the overseas importers. Buyers' credit occurs when the EXIM Bank directly lends to an overseas buyer. The lending rate has been reduced over the years.

2.2.6 Conclusion

In a developing country like India, which has chosen the path of planned economic development, deficits in the balance of payments are not only necessary but also deliberate at least in the initial stages of development. But, this does not mean

that heavy and continuously rising deficits are justified forever. What is required is neither imposing blanket ban on imports nor absolute liberalisation of imports. The satisfactory solution to the problem of adverse balance of payments lies in skillfully framed import-export policy consistent with the objectives of accelerated growth and self-reliance.

2.2.7 Short answer type questions

1. Explain the main features of India's foreign trade since independence.
2. Discuss the major changes in the composition and the direction of India's foreign trade since independence.
3. What are India's major imports and exports?
4. Review the trends in India's balance of payments. What are the causes of deficits in the balance of payments?

2.2.8 Long answer type questions

1. What steps have been taken to correct the adverse balance of payments ?
2. Critically examine India's foreign trade policy.
3. Discuss various export promotion measures adopted by the government of India.
4. Write a note on India's foreign trade policy of 1991.
5. Write notes on :

(a) Import Substitution, (b) Export promotion policy, (c) State Trading Corporation.

2.2.9 Recommended books

Datt and Sundaram : Indian Economy
P.K. Dhar : Indian Economy
Mishra and Puri : Indian Economy
A. N. Aggarwal : Indian Economy

Lesson No. 2.3 **Author : Dr. Manisha Sharma**

WTO and Indian Economy

2.3.1 Introduction

The birth of World Trade Organisation (WTO) on January 1, 1995 holds a great promise for the entire world economy in respect of international trade. This World Trade Organisation will administer the new global trade rules estal lishing the rule of law in international Trade, which amounted to nearly five trillion dollars goods and services. The latest issue of GATTAVTO News (January, 1995) observed that the new global trade rules were achieved after seven years of negotiations among more than 120 countries and through the WTO agreements and market access commitments, world income is expected to rise by over 500 billion dollar annually by the year 2005 and annual global trade growth will be as much as a quarter higher by the same year than it would have been otherwise.

2.3.2 Objectives of lesson

In this lesson we will discuss WTO and its impact on Indian economy.

2.3.3 Role of World Trade Organisation (WTO)

The World Trade Organisation (WTO) is playing an important role for administering the new global trade rules in the following manner:

(1) The WTO administers, through various councils and committees, the 28 agreements contained in the final act of the Uruguay Round, plus a number of plurilateral agreements, including one government procurement.

(2) WTO also oversees the implementation of the significant tariff cuts (averaging 40 per cent) and reduction of non-tariff measures agreed to in the trade negotiations.

(3) WTO is a watchdog of international trade, regularly examining the trade regimes of individual members. In its various bodies, members flag proposed or draft measures by others that can cause trade conflicts. Members are also required to notify in detail various trade measures and statistics, which are maintained by the WTO in a large data base.

(4) WTO provides several conciliation mechanisms for finding an amicable solution to trade conflicts that can arise among members.

(5) trade disputes that cannot be solved through bilateral talks are adjudicated under the WTO Dispute Settlement Court. Panels of independent experts are established to examine disputes in the light of WTO rules and provide rulings. This tougher streamlined procedure ensures equal treatment for all trading partners and encourages members to live upto their obligations.

(6) WTO is a management consultant for world trade. Its economists keep a close watch on the pulse of the global economy and provide studies on the main trade issues of the day. The secretariat assists developing countries in the implementation of Uruguay Round results through a newly established development division and strengthened technical co-operation and training division.

(7) WTO will be a forum where countries continuously negotiate exchange of trade barriers all over the world. And the WTO already has a substantial agenda for further negotiations in many areas.

It can be expected that the WTO is different from and an improvement upon GATT, on the ground that firstly, the WTO will be more global in its membership than the GATT. Its perspective membership is already around 150 countries and territories, with many others considering accession. Secondly, the WTO has a far wider scope than its predecessor, bringing into the multi-lateral trading system for the first time, commercial activities like trade in services, the exchange of ideas in the context of intellectual property protection and investment.

2.3.4 Impact of WTO on Various Aspects of Indian Economy

India, being a founder member of the WTO, has been following the WTO decisions, but as a consequence, certain effects on the Indian economy have become evident.

WTO and Indian Industry

WTO has been urging India to lower import duties, remove controls on consumer goods imports, reduce quantitative restrictions, etc. Under the Uruguay Round Agreement, India offered to reduce tariffs on capital goods, components, intermediate goods and industrial raw materials to 40% in case our tariffs were above that percentage; to 25% in case our tariffs were between 25 to 40 per cent and to bind the tariff ceiling at 25 per cent in case our tariffs were below that percentage. This reduction in tariffs was to be

achieved by the year ending 2000.

Since India scrupulously followed the agreement, the tariffs have been reduced year after year to conform with the WTO provisions. As the protection afforded by import duties gradually disappeared, Indian industry had to face increasing competition from foreign goods. Confederation of Indian Industry (CII), the apex body expressed its disapproval against duty-free status of capital goods sector. As a result, CII estimated that indigenous capital goods industry on a conservative estimate lost orders worth Rs. 5,000 crores from foreign countries.

Not only the entire manufacturing industry is faced with a crisis, even machine tools industry, gensets and boiler producers are put at a serious disadvantage. Consequently, imports of finished products are displacing indigenously produced products. As a result, many industrial units are being closed and cheap imports have become an important cause of recession in Indian industry. India was maintaining quantitative restrictions in the form of quotas, import and export licences on 2,700 agricultural commodities, textile and industrial products. United States along with Australia, New Zealand, Switzerland, European Economic Community and Canada complained to the WTO Dispute Settlement Machinery that these QRS were inconsistent with WTO norms. The dispute settlement panel gave its verdict against India. India went in appeal, but the WTO panel on 23rd August 1999 rejected India's appeal against QRs.

As a result, although India could continue QRs till March 2003, the process was hastened and QRS on all items were removed. This has opened the floodgates for foreign consumer goods to enter the Indian market, thereby seriously damaging Indian industry.

WTO and SSI Units

WTO agreements do not discriminate on the basis of size of industries or enterprises. In the WTO regime, reservations may have to be withdrawn, preferential purchase and other support measures may not be available and thus SSIs have to compete not only with the large units within the country, but also with cheap imported products. SSIs are thus losing their markets to cheap imported products. Consequently, a very large number of SSI units are becoming sick or have closed down. Thus, the ° SSI sector which accounts for 40 per cent of manufacturing output, 50 per cent of employment and over 33 per cent of exports is in jeopardy. Next to agriculture, this sector- is the principal source of employment accommodating 18 million persons. The rule of survival of the fittest is being applied to this sector and in their game, only a few able ones will be able to survive. Dumping of Chinese goods has seriously affected SSI sector. The real difficultly with the SSI sector is that it does not have adequate resources to prepare the case for anti-dumping duties in view of the prohibitive costs of anti-dumping investigation. The SSIs cannot collect detailed information on individual products required by the antidumping directorate to establish a complete case. Consequently, small industries continue to suffer due to such dumping policy.

Not only that, the entry of multinationals in ordinary consumer goods like ice cream, agarbatti manufacture, food processing, mineral water etc. is also adversely affecting the SSI sector since these were the traditional areas of this sector. In soft drinks, the entry of powerful Coca Cola and Pepsi have eliminated practically all small units engaged in the manufacture of aerated water. MNCs are not interested in hi-tech products. Rather they prefer low technology, quick profit yielding and large volume products with regular demand throughout the year. In the name of consumer interests, MNCs continue to swallow SSIs and eliminate them from the market.

WTO and Agriculture

WTO Agreement on Agriculture stipulated that developed countries would reduce their subsidies by 20 per cent in six years and developing countries by 13 per cent in 10 years. But as facts stand today, developed countries tried to circumvent this agreement by providing Green Box and Blue Box subsidies to support agriculture.

Green Box Subsidies include amounts spent on Government services such as research, disease control, infrastructure and food security. They also include payments made directly to farmers that do not stimulate production, such as certain forms of direct income support assistance to help farmers restructure agriculture, and direct payments under environmental and regular assistance programmes. This definition is very wide and includes all types of Government subsidies.

Blue Box Subsidies are certain direct payments made to farmers where the farmers are to limit production, certain government assistance programmes to encourage agriculture and rural development in developing countries, and other support on a small scale when compared with the total value of the products supported 15 per cent or less in the case of developed countries and 10 per cent or less for developing countries.

India's agricultural imports were of the order of US $ 1.86 billion in 2000-01, but they increased to $ 2.29 billion in 2001 -02. If the surge continues, then the interests of Indian farmers would be seriously affected. **Economic Survey (2002-03)** makes a forthright statement: "India has considerable flexibility to counter flooding of the Indian market by cheap agriculture imports through the imposition of tariffs (bound rates) under WTO. WTO permissible tariff rates are reasonably high: 112 per cent for nuts, 150 per cent for sugar and coffee, 100 per cent for tea and cotton, 70 to 100 per cent for foodgrains, 45 to 300 per cent for edible oils and 40 to 50 per cent for fruits. Countervailing duties can also be imposed to counter questionable subsidies given to agriculture products by the exporting countries apart from having the option of acting under safeguard provisions to counter the surge of imports. In budget 2001 -02, import duties were raised for many agri products such as tea, coffee, pulses and edible oils. In 2002-03 budget, the import duties were raised for pulses (from 5 to 10 per cent, tea and coffee (from 70 to 100 per cent), natural rubber, pepper, cardamom and clove (from 35 to 70 per cent)." (pp. 174-75) So far India has followed the Agreement on Agriculture very

honestly, but honest implementation should not be treated as a sign of weakness. In case, the US and OECD countries persist in their nefarious game of protective tariffs, quotas and subsidies for their farmers, India and other developing countries may be left with no choice but to retaliate. But this would mean the start of a process which may result in the decline of globalisation world over.

However, this does not mean that at the domestic level, India has no action to take to improve its agriculture. In fact, the reform process is guilty of neglecting agriculture. In agricultural infrastructure, the most important is irrigation. The reform process emphasized the role of the private sector in promoting irrigation. But the experience of the Ninth Plan as documented in the Tenth Plan reveals that the private sector invested in irrigation technologies which were mainly extractive such as tube wells. But these investments are not sustainable unless appropriate investments are made in rain-water harvesting and recharging of ground water resources. However, data as provided by CSO reveals that in gross capital formation in agriculture, the share of the public sector declined from 33 per cent in 1994-95 to merely 23.5 per cent in 2000-01. In absolute terms, public sector investment declined from Rs. 4,947 crores in 1994-95 (measured at 1993-94 prices) to just Rs. 3,919 crores in 2000-01. Although private sector investment improved, but it did not fulfill the functions of rain water harvesting and recharging of ground water resources.

In boosting agri exports, some success has been achieved, but agri-exports which reached $ 6,004 million in 2000-01, declined to $ 5,871 million in 2001-02.

Another important area which needs attention is to make agricultural credit available at lower rates of interest. There is no doubt that the total flow of institutional credit to agriculture which was of the order of Rs. 31,956 crores in 1997-98 has more than doubled to Rs. 82,000 crores in 2002-03. This is really heartening, but the rate of interest charged on loans ranges between 14-18 per cent. This implies that the benefit of declining rates of interest has not been passed on agricultural borrowers. On account of the efforts of former Agriculture Minister Mr. Rajnath Singh, the Finance Ministry agreed to reduce interest on farm loans upto Rs. 50,000 to 9 per cent. This step, though in the right direction, is still inadequate, moreso, in view of the fact interest on housing loans has been reduced to 8.5 to 10 per cent, it is imperative on the part of the Government to bring down interest rates on all agricultural loans— short-term, medium-term and long-term. Accepting the need to reduce interest rate on agricultural loans, Former Prime Minister Atal Behari Vajpayee on 27th July 2003 announced: "Crop loans below Rs. 50,000 will be charged nine per cent interest and banks are being asked to charge the rate of interest below the PLRs for agricultural loans.

2.3.5 WTO and India's Gain as a Founder Member

In a country like India, the benefits accruing from being a founder member of World Trade Organisation (WTO) are immense. At present, only just five per cent of

our tariff lines remain bound. With the finalisation of the Uruguay Round, about 68 per cent of India's tariff lines covering basically raw materials, components and capital goods, but excluding consumer goods, petroleum, fertilisers and some non-ferrous metals would have been bound.

The Government is of the view that it is in the long term interest of India to have low duties on raw materials, components and capital goods since they satisfy the production needs of the economy.

Regarding the threat arising out of TRIPs, the Commerce Minister, Pranab Mukherjee is on record saying that exclusive marketing rights to be provided for patent holders would in no way dilute the national interest in such crucial areas as agriculture, drugs and pharmaceuticals as enough safeguards had been built into the system to.take care of the concern voiced by developing countries including India.

India now stands to gain immensely from the membership of WTO. At the time the question of this country joining the WTO was broadly under consideration, the opposition political parties strongly opposed our joining the World body. The fears expressed by the opposition parties regarding adverse effects of membership on farmers and the agricultural sector, prices of foodgrains due to withdrawal of food subsidies which would become obligatory under the terms of membership of that body and life savings drugs require us to enact have all proved almost groundless. India being a founder country has already started to assert itself in the meetings of WTO council.

Although a great deal of misinformation has been spread throughout the country on the otherwise beneficial aspects of the multi-lateral treaty, but it is to be seen how far these safeguards built into the system by the Government are sufficient enough to take care the interest of the masses as well as the country as a whole. But the ultimate impact of the Uruguay Round and the formation of WTO would depend on gains in productivity in various sectors resulting from realisation of economies of scale, technology transfer and increased trade and investment.

Moreover, India is also facing a serious threat from the attempt of the developed countries to introduce social and environmental clauses in multilateral trading system and thereby imposing countervailing duty on imports from India and other developing countries. These type of proposals have shocked the experts of the developing countries because it will deprive the developing countries of their only competitive advantage arising out of cheap and abundant labour force.

Gains for India

The Commerce and Industry Minister who represented India at the Doha WTO Conference succeeded in sending a strong message that India can no longer be ridden roughshod over by the developed countries, more especially US and the European Union. The biggest gain was that WTO chairman declared that negotiations on

Singapore issues-investment, competition, labour standards and environment would be held only after an "explicit concensus" was reached at the Fifth Ministerial. Such a concensus may not be easy to emerge even in 2003, keeping in view the reservations expressed by the developing nations at the Doha Conference.

Another major gain was that instead of opening discussion on new issues, it was agreed under pressure from India and other developing countries that it would be more advisable to undertake an exercise on a more complete implementation of Uruguay Round recommendations. This would involve review of bottlenecks and constraints arising out of the roadblocks in the way of fulfillment of their obligations by the developed countries. This would be particularly directed towards the US, Japan and countries of the European Union to open markets to products in which the developing countries enjoyed a comparative advantage.

The anti-dumping laws of the US were another painful thorn in the flesh of countries like India in respect of steel and other allied items of manufacture. This was taken up strongly by India and other member countries. The pressure built on US was so strong that the US was forced to promise a toning down of its policies and legislation pertaining to anti-dumping laws.

Growth of E-commerce and WTO Declaration

The growth in e-commerce has added a new dimension to trade policy which countries have to take account of by formulating rules to keep abreast of the fast growing technological developments. The WTO General Council agreed on the comprehensive working definition of electronic commerce as "the production, distribution, marketing, sale or delivery of goods and services by electronic means". Electronic transactions involve three stages namely searching, ordering/making payment, and delivery of products. Electronic delivery of goods is by far the most challenging aspect from a policy perspective as such trade is compounding rapidly without any global regulatory framework and hardly any national or international legislation.

In recognition of the growing importance of electronic commerce in international trade, the Second Ministerial Declaration of the WTO at Geneva adopted a declaration on global electronic commerce on May 20, 1998, which directed the WTO General Council to establish a comprehensive work programme to examine all trade related issues arising from electronic commerce. The work programme includes issues like characterisation of electronic transmission as goods or services or something else: market access involving the method of application of customs duties to electronic transmission; classification of digitized products under the existing Harmonized System (HS) of trade classification; rules of origin; standardisation; development dimensions involving the effect on revenue and fiscal positions of developing countries in future ; etc. The 1998 declaration also included a so-called moratorium stating that

"members will continue their current practice of not imposing customs tariffs on electronic transmission". The work programme was adopted by the WTO General Council on September 25, 1998.

2.3.6 Fourth WTO Ministerial Conference and the Doha Declaration and India's Role

In the fourth Ministerial Conference at Doha, India played a proactive role in the deliberations. India preferred a genuine resolution of implementation related concerns, increased market access in agriculture, sufficient flexibility and clarity under TRIPs for public health policies and strongly opposed the introduction of non-trade issues like labour in the agenda. It was able to ensure adoption of an agenda that emphasised not only trade but also the developmental goals and priorities of developing countries.

It is the insistence of India that forced the WTO to amend its draft resolution at the eleventh hour even by extending the scheduled time to suit the interests of developing nations status, particularly, on the issues related to foreign investment, competition policies and environment. The conference primarily focussed its discussion on the related issues pertaining to global recession. Accordingly, the Declaration was also made— "We are determined particularly in the light of global economic slow-down, to maintain the process of reform and liberalisation of trade policies, thus ensuring that ,the system plays its full part in promoting recovery, growth and development.

As per the WTO norms, the member nations, out of its obligations, cannot discriminate against one another's goods and companies without showing any valid and justified reasons. But due to the violation of rules, most of the developing nations have failed to reap any benefits of WTO. It is a matter of happiness that in Doha, under the able leadership of India, the developing nations have been to able redress their grievances that they have fared much badly than they should have under globalisation and now the system should be changed to such an extent so that they should realise a greater share of benefits. Now the agreement so reached does not. give any immediate relief to the developing nations but the agreement ommits that the WTO members to negotiate reductions in tariff, especially on products of export interest to developing countries and the higher level of tariffs applied on goods such as textiles on which the developing countries have much better competitive strength. Moreover, under the active pressure of developing countries, the Doha Conference and its declaration also agreed to include anti-dumping on the WTO agenda.

The mandated negotiations as per Article 20 of the Agreement on Agriculture commenced in 2000. Considering its importance, India has submitted its comprehensive proposals in the areas of Domestic Support, Market Access, Export Competition and Food Security. The proposals keep in view the objectives of protecting India's food and livelihood security concerns by having freedom for taking all domestic policy measures for poverty alleviation, rural development and rural employment as

also to create opportunities for expansion of agricultural exports by securing meaningful market access in developed countries. India, with a view to garner support of other developing countries, also co-sponsored two proposals with other countries : one on market access and another on export credit for agricultural products. It is quite true that due to higher rate of export subsidies provided by EU, the agricultural prices in the developed countries have been kept at lower level deliberately thereby depriving the Third World countries to get the benefits from its agricultural exports. However, the issue was temporarily resolved by accommodating a clause in the declaration that the negotiations in this issue would be held "without prejudging" the outcome.

Under TRIPs, India has been seeking greater flexibility and clarity in the interpretation of the Agreement on TRIPs in order to ensure affordable access to essential medicines and life saving drugs, in keeping with the public health concerns of developing countries. India, the African group of countries, Barbados, Bolivia, Brazil, Dominican Republic, Philippines, Peru, Sri Lanka, Thailand and Venezuela jointly submitted a paper on TRIPs and Public Health to the TRIPs Council in which India, along with other co-sponsors had demanded that the WTO should ensure that TRIPs Agreement does not undermine the right of the WTO members to formulate their own public health policies and adopt measures for providing affordable access to medicines. Finally, the Doha declaration affirms that the TRIPs Agreement can and should be interpreted and implemented in a manner supportive of WTO members right to protect public health and, in particular, to promote access to medicines for all.

2.3.7 Conlusion

A survey of the globalisation policies followed in India reveals that the promised benefits of globalisation in the form of sharp increase in GDP, exports, foreign direct investment, reduction of poverty, deceleration of unemployment could not be realised by India during the 1990s. Globalisation has adversely affected Indian industry, it has enabled the developed countries to pusrrtheir exports to India at a much faster rate, but did not facilitate the process of access to international markets; small scale industry has suffered due to the policy of dumping practised by developed countries, more especially in consumer goods. The most distressing part of the story is the double standards practised by the developed countries which manifest in the form of unfair agreement on textiles; a policy marked by a bias in favour of the farmers of developed countries as against the poor farmers in India. Developed countries brought forth spurious environmental and social issues to prevent the exports from India of such commodities in which the country possessed comparative advantage.

2.3.8 Short answer type questions

1. Write a short note on WTO?
2. What are blue box subsidies?

3. What are green box subsidies?
4. Write a short note on Doha meeting

2.3.9 Long answer type questions

1. What is the impact of WTO and Indian economy?
2. Explain the role of WTO.

2.3.10 Recommended books

Datt and Sundaram : Indian Economy
P.K. Dhar : Indian Economy
Mishra and Puri : Indian Economy
A. N. Aggarwal : Indian Economy

Lesson No. 2.4 **Author Dr Manisha Sharma**

Concentration of Economic Power in India

2.4.1 Introduction

As industries require huge capital, economic concentration is needed to a certain extent for the development of industries. A characteristic feature of the industrial development has been the growth of monopolistic organisations. This is an inevitable concomitant of the market-led growth, when the big companies grow more rapidly than the small ones. But the objectionable types of concentration of economic power are monopolies and the like, indulging in restrictive trade practices that are harmful to consumers and try to throttle new inventions. Restrictive trade practices are those which obstruct the free flow of competing forces or the free flow of capital resources into the stream of production or the finished goods in the stream of distribution at any point before they reach the hands of the ultimate consumer.

2.4.2 Objectives of the Lesson

In this lesson we will study economic concentration in India, its consequences and steps taken by the government to reduce it.

2.4.3 Economic Concentration

When the Industrial Policy Resolution came for discussion in the Lok Sabha in April, 1960, several members contended that the Government had not succeeded in preventing concentration of economic power.

In 1960, the Estimates Committee of Parliament suggested that a survey of holding in the industrial field by the various groups of industries and business houses may be undertaken to get an idea of the results .achieved by the Union Commerce and Industry Ministry in checking "monopolistic tendencies'. Then onwards the issue of concentration of economic power became a burning problem and the Government started to study the issue.

A Committee was appointed under the chairmanship of Dr. P. C. Mahalanobis by the Planning Commission in October, 1960 and it was called the 'Distribution of Income and Level of Living Committee'. It has to ascertain the extent to which the operation of economic system had resulted in concentration of wealth and means of production and to study recent trends in the distribution of income and wealth.

The Committee indicated the presence of concentration of economic power in terms of income, property and especially of control over the private sector. Concentration had increased significantly between 1951 and 1958. Regarding concentration in private corporate sector, the Committee reported :

(i) Though the increasing size of companies by itself was not necessarily an index of growing concentration in ownership in companies, the phenomenon was conducive to more concentration of control and economic power,

(ii) The working of the planned economy has contributed to the growth of big companies in addition to affording a protected market,

(iii) The main beneficiaries from bank credit had been the big and medium enterprises,

(iv) The localised concentration of industry must necessarily result in the accrual of possible exercise of monopolistic power.

(v) It was the concentration of control in industrial sector as **a** whole presented the more menacing aspect of concentration of economic power,

(vi) One of the factors accounting for increase in the economic power of the larger groups in the recent years was the large inflow of foreign investment and technical know-how through joint ventures,

(vii) Despite the countervailing measures taken by the Government so far, there was a greater concentration of economic power.

(viii) growth of the private sector in industry and especially of the big companies had been facilitated by the financial assistance rendered by public institutions like The Industrial Financial Corporation, The National Industrial Development Corporation, etc.

The committee, discussing the subject of concentration of control in the corporate sector, observed that the 20 leading groups had an interest of one kind or other in 983 companies with a share capital of Rs. 238 crores in 1951. The interest

increased to 1173 companies with a share capital of Rs. 352 crores in 1958. Their share in the non-Government public companies increased from 40 percent in 1951 to 48 percent in 1958 in the case of share capital and from 36 percent in 1951 to 45 percent in 1958 in the case of capital stocks. This shows the concentration in the entire corporate private sector in the initial years of planning itself. It observed that more comprehensive and detailed information regarding the many aspects of economic power and controls in the private sector was required. Such information could be collected only by a full-time agency, if set up with both the necessary legal authority and competent full-time staff.

Monopolies Inquiry Commission, 1964 (MIC)

The Union Government appointed a five-member Commission in April, 1964 to enquire into the extent and effect of concentration of economic power in private hands and the prevalence of monopolistic and restrictive practices in economic activity other than agriculture, under the chairmanship of Mr. K. C. Das Gupta, the judge of the Supreme Court. The Commission submitted its report at the end of October, 1965.

The findings and recommendations of the Commission are as follows:

Manifestations of Economic Power.

The Monopolies Inquiry Commission (MIC) was concerned with the two manifestations of economic power, viz., monopolistic practices and restrictive practices. The MIC drew a distinction between a monopolistic practice and a restrictive practice. "Every practice whether it is by action, or understanding or agreement, formal or informal, to which persons enjoying monopoly power resort in exercise of the same to reap the benefits of that power and every action, understanding or agreement tending to or calculated to preserve, increase or consolidate such power should properly, be designated monopolistic practice". The term 'restrictive practice' implies "practices other than those pursued by monopolists which obstruct the free play of competitive forces or impede the free flow of capital or resources into the stream of-production or of the finished goods in the stream of distribution at any point before they reach the hands of the ultimate consumer".

Extent of Concentration.

The MIC distinguished between two types of concentration, namely product-wise concentration and country-wise concentration.

In case of the product-wise concentration, the production and distribution of a commodity or service are controlled by a single concern or a limited number of concerns, which themselves are controlled by only a single family or a few families or business houses. In case of the country-wise concentration, the production and

distribution of **a** large number of different commodities, produced by a number of concerns, are controlled by one individual or a family or group of persons.

The MIC categorised concentration as 'high' if the share in the product of the three top producers is 75 percent or more, 'medium concentration, if the share is more than 60 percent but less than 75 percent; 'low' if the share is more than 50 percent but less than 60 percent and the concentration is 'nil' if share is less than 50 percent. In terms of these categories, the MIC enquired into 100 products. Its findings are as follows: In case of 65 products the concentration was high, in case of 10 products, it was medium; and in the case of only 8 products, the concentration was low. With regard to the country-wise concentration, the findings of the commission are of the top 75 groups of industrial houses. Birlas controlled 151 companies, the Bangur 81, the Soorjmull Nagarmull 76, the Bird Heilgers 64 and the Tatas 53. In all, these 75 industrial houses controlled 1,536 companies. Their assets amounted to Rs. 2605.95 crores, which came to a little more than 44 percent of the non-Government and non-banking companies in 1963-64.

2.4.4 Consequences of Concentration

(A) Economic Consequences

(i) Economic Growth.—The majority of the Commission held that concentration of economic power had fostered economic growth. The large industrial houses promoted capital formation, set up new industrial units, and helped in the expansion of existing units.

(ii) Promotion of Managerial Skill.—The MIC held that the concentration of economic power supplied managerial skill of high quality in abundance and, as a result, production could be carried on a high level with good dividends.

(iii) Pattern of Investment.—The Commission's report did not enquire into misdirection of investment resulting from economic concentration and thus it did not make any observation on this point.

(iv) Harmful Practices.—The monopolistic and restrictive practices, which these monopolistic organisations have often indulged in and through which have harmed social welfare are many and varied. The practices the MIC has pointed are : Charging unfair prices for certain essential consumer goods like drugs; creating artificial scarcity by hoarding, fixing of prices by agreements among manufacturers of the same product; dictating dealers to sell goods at the prices fixed by them; discriminating among" retailers and selling agents in respect of discount on the sale of goods enforcing exclusive dealership, *i.e.,* not permitting the dealer to sell any other product; indulging in malpractices to drive away small producers and to keep out potential new competitors, indulging in tie-in or tie-up practices; refusing to sell to certain dealers disliked by them, etc.

(B) Social Consequences of Concentration

(i) Public dislike.—The widespread dislike for big business existed among the masses disturbed the mutual goodwill among large sections of the community.

(ii) Financial assistance to the ruling party.—The big business stretches its tentacles into the very working of the democratic machinery—a feeling supported by the fact that considerable financial assistance had been given by some of the leading industrialists in the country to the ruling party from time to time, especially on the eve of general elections.

(iii) Corrupting the officials.—Big business houses had the power to corrupt and some businessmen did not hesitate to use their 'deep pockets' to try to corrupt public officials.

(iv) Undermining of social and academic values.—Another social consequence of concentration was the undermining of social and academic values, especially among the younger generations, which was the result of conspicuous consumption and ostentatious high living indulged in by the rich.

2.4.5 Causes of Concentration

(i) Joint stock companies.—Development of the joint stock companies and economies of scale arising out of technological advances were found to be among the main causes of the growth of concentration of economic power.

(ii) **Economies of** scale.—While the economies of scale brought about largely by technological advances and the capital formation helped by the development of corporations were the basic causes for the concentration in India.

(iii) Inter-company investment.—The investment of funds by one company in acquiring assets or stock or shares of another independent company was another cause of concentration.

(iv) Inter-locking of directors.—Inter-locking of directors in a company in the same line of production or a company engaged in the distribution of its products or one engaged in the production of an allied product or of raw materials had a tendency to increase concentration of economic power.

(v) **Control over banking companies.**—The banking system was controlled by large industrial houses. The bank deposits collected from the general public were used almost exclusively for financing of industries owned and controlled by large industrial houses.

(vi) Public sector financial institutions.—Another important factor for growing concentration of wealth and economic power is the nature of the working of public sector financial institutions.

(vii) Control through diversification and technological integration.—

Proliferation of industrial units in different industrial categories is commonly referred to as diversification. On the other hand, combining the various stages of production under common ownership and control is referred to as technological integration. Most of the big industrial houses have made use of both techniques for increasing their monopoly power.

(viii) Grabbing of business and industrial opportunities by big business houses.—When rapid industrial development was planned, the industrial houses, which were already in the field, were quick to seize the abundant opportunities for their growth and expansion. This is as well as the fact that when some of the British business houses left India on her becoming independent, their businesses were, in turn, acquired by wealthy Indian industrialists further accelerated the process of economic concentration.

(ix) System **of industrial licensing.**—Big business was at an advantage, in securing licences for starting new industries or for expanding the existing capacity. A few industrial houses were able to take multiple licences for the same product.

(x) Foreign collaborations.—Further, foreign collaborations also helped the strong and the entrenched industrialist *vis-a-vis* the small industrialist.

(xi) Tax **incentives.**—The Government attempted to promote the growth of private industry through extension of tax incentives and the large industrial houses were able to take advantage of them.

(xii) Imports.—In the matter of imports too, the large industrial houses, through legal and illegal methods, were able to secure foreign exchange allocations, and to set up and even expand industries given low priority in the plans. Regulation of imports, exchange control in the face of difficult balance of payments position proved to be potent factor for further concentration.

(xiii) Protected market.—The Government has protected the Indian industries from foreign competition in a number of ways. Heavy import duties were levied on a number of products of foreign competitors taking away their competitive advantage. Imports of certain items was totally banned. This increased the strength of large business houses in the domestic economy. Success in these efforts has given them tremendous power to increase profits by raising prices and restricting supplies.

(xiv) Industrial policy.—When the Government opened the doors of industries under Schedule A to the private sector, the large business houses got an opportunity of expanding their activities. All the industries entered into by the private sector were large and basic to the industrial development of the economy. The participation of private sector in the industries of heavy machinery and plant, machine tools, etc. gives a boost to concentration of economic power.

Recommendations of Monopolies Inquiry Commission as Remedial Action to Control

the Concentration of Economic Power

(A) Legislative Recommendations.

(i) The setting up of a permanent body known as Monopolies and Restrictive Trade Practices Commission with a duty and responsibility to exercise vigilance and prevent the evils of monopolistic and restrictive practices. After a judiciary inquiry, it would issue an order calling upon the party to desist from and discontinue the practice complained against. Such order would have mandatory force. The permanent body would also have the power to approve of any merger or amalgamation. Any proposal for expansion of the dominant enterprise should be approved by it.

(ii) It is necessary to strike at concentration of economic power only when it becomes a menace to best production (in quality and quantity) or to fair distribution.

(iii) Monopolistic conditions in any industrial sphere should be discouraged, if this could be done without injury to the interests of the general public.

(iv) Monopolistic and restrictive practices must be curbed whenever necessary.

(B) Non-legislative Recommendations

(i) Liberalisation of industrial licensing so that the small trade and industrialist can also enter the industry in competition with big business.

(ii) Instead of issuing import licences to a select few, licences be issued to all those producers who are actual users of imported articles directly in their manufacturing concern.

(iii) The desirability of countervailing action by public sector to mitigate the evils of monopoly power.

(iv) Promotion of small industries and encouragement of consumers' cooperatives would curb the growth of economic concentration.

(v) The political parties could refuse to accept financial assistance from the corrupting influence of big business. It would be easier for them to deal with any corruption of Government officials.

2.4.6 Measures Taken by the Government to Combat the Growth of Monopolies

The Government initiated a number of measures of which the more important ones are the following:

(i) The Industrial Policy of 1970 restricted the entry of large business houses in a number of industries of national importance.

(ii) The Government adopted the Monopolies and Restrictive Trade Practices (MRTP) Act in 1969.

(iii) The Government set up the MRTP Commission in 1970.

(iv) Expansion of the public sector and the joint sector.

(v) Encouragement to small and medium industries.

(vi) The Government lowered the limit of the value of assets of a company so as to reduce the possibility of increasing the number of those which cross the limit as also to bring a large number of companies within the orbit of the MRTP Act.

(vii) The Industrial Licensing Policy of 1970 placed certain restrictions on undertakings belonging to the large industrial houses so as to limit their expansions.

2.4.7 Monopolies and Restrictive Trade Practices (MRTP) Act, 1969

As a follow-up action on the Report of Monopolies Inquiry Commission, the Government passed the Monopolies and Restrictive Trade Practices Act in December, 1969. The objectives of the legislation are as follows :

(i) to ensure that the functioning of the economic system does not result in concentration of economic power to the common detriment; and

(ii) to control such monopolistic and restrictive trade practices as are injurious to the public welfare. To review the working of the MRTP Act and to make recommendations to streamline it, the Government appointed the Sachar Committee in 1977. On the basis of its recommendations, the Government introduced amendments in the Act in 1980, 1982 and 1984. A significant amendment was made in 1991 when Chapter III on monopolies was dropped as liberalisation was introduced in Industrial Policy of 1991.

Provisions and scope of the MRTP Act

(i) Inter-connected and Dominant Undertakings.—The MRTP Act covers two types of undertakings viz., national monopolies and product monopolies. National Monopolies were covered by Section 20(a) of the Act and were either 'single large undertakings' or 'group of inter-connected undertakings' *(i.e.,* large houses) which had assets of at least Rs. 100 crores (prior to 1985, this limit was Rs. 20 crores). Product monopolies covered under Section 20(b) are called 'dominant undertakings'. They were those which controlled at least one-fourth of production or market of a product and had assets of at least Rs. 3 crores (earlier this limit was Rs. 1 crore). The New Industrial Policy, 1991 has now scrapped the assets limit for MRTP Companies.

(ii) Monopolistic, Restrictive and Unfair Practices.—According to the MRTP Act, a restrictive trade practice (RTP) means a trade practice which has, or may have, the effect of preventing, distorting or restricting competition in any manner and in particular :

(i) which tends to obstruct the flow of capital or resources into the stream of production;

(ii) which tends to bring about manipulation of prices or conditions of delivery

or to affect the flow of supplies in the market relating to goods or services in such a manner as to impose on the consumers unjustified costs or restrictions. A monopolistic trade practice (MTP) is a trade practice, which has, or is likely to have the effect of :

(i) maintaining prices at an unreasonable level, or
(ii) unreasonably preventing or lessening competition, or
(iii) limiting technical development or capital investment to the common determinant, or
(iv) allowing the quality to deteriorate. As per 1984 amendment, unreasonably increasing
a. The cost of production or charges for service,
b. the prices of goods or services, or the profits derived by production, supply or distribution, or
c. lessening or preventing competition in production, supply or distribution also results in a monopolistic trade practice.

Prior to 1984, the MRTP Act was restricted to monopolistic and restrictive trade practices only. The 1984 amendment extended it to unfair trade practices also. Trade practices, which amount to unfair trade practice, include:

(i) The publication of a statement, made orally or in writing or by visible representation,
(ii) the publication of any advertisement for sale at bargain price,
(iii) enticement by gift or contest,
(iv) sale or supply of sub-standard goods, and
(v) hoarding or destruction of goods, or refusal to sell goods or to provide service.

(iii) MRTP Commission.—The Act provides for the establishment and constitution of the MRTP Commission. The Commission shall consist of **a** Chairman and not less than two and not more than eight other members to be appointed by the Central Government.

(iv) Purview of the MRTP Act.—A large number of types of undertakings were specified in the MRTP Act which fell under its purview. Each one of these was required to be duly registered with the Registrar of Restrictive Trade Practices including the name of parties to the agreement. Registered undertakings were subject to the following control on their industrial activities:

(a) If it was proposed to expand substantially the activities of the undertaking by issuing fresh capital or by installation of new machinery or in any manner, notice to the Central Government was required to be given and approval taken (Section 21).

(b) If it was proposed to establish a new undertaking, the prior permission of the Central Government was required to be obtained (Section 22), and

(c) If it was proposed to acquire or merge or amalgamate with another undertaking, the sanction of the Central Government was required to be taken (Section 23).

The MRTP Act also provides certain guidelines and as to how 'public interest' should be judged. These include: (a) ensuring that efficiency is progressively increased; (b) encouraging new enterprises as a countervailing force, and (c) a reduction in inter-regional disparities. Restrictive trade practices are permitted if their removal might cause: (i) a rise in unemployment in an area, (ii) a fall in exports, (iii) a reduction in the bargaining power of contracting parties viz., a supplier or a buyer controlling a preponderant part of the market, etc.

(v) The Monopolies and Restrictive Trade Practices Commission (MRTPC).

The MRTP Act provides for the establishment and constitution of a permanent statutory commission to be called the Monopolies and Restrictive Trade Practices Commission (MRTPC). The Commission shall consist of a chairman and not less than two and not more than eight other members to be appointed by the Central Government. The MRTP Commission shall have the same powers as are enjoyed by the civil court under the Code of Civil Procedure, 1908. It shall have the power to call books, accounts or other documents. It can order search and seizure in relation to **an** undertaking under inquiry. It. has also the power to grant temporary injunction restraining a person to carry on any monopolistic, restrictive or unfair trade practice. The Commission can also award compensation for the loss or damage caused by reason of monopolistic, restrictive or unfair trade practice. It has also been given power to regulate the procedure and conduct of its business regarding inquiry and to make regulations for the efficient performance of its functions.

It will perform two main functions : investigation and control of monopolies and all restrictive trade practices. It will also be available for advice on matters relating on concentration of economic power. In relation to monopolistic practices, the Commission will have only advisory status with no powers of enforcement. In relation to restrict trade practices its status will be that of judicial court with powers of enforcement. In matters pertaining to concentration of economic power, powers of investigation and enforcement shall vest with government which will decide whether or not to refer a particular case to MRTPC for advice which, again, will not be binding on it.

The Director of Investigation and the Registrar of Restrictive Trade Practices will assist the Commission in its work. The function of the Director of Investigation is to carry out preliminary investigations into the complaints of restrictive trade

practices with a View to establishing their veracity and importance. The Registrar will mainly look after the registration of restrictive trade agreements.

On August 2, 1970, Government set up a three-man Monopolies Commission to prevent concentration of economic power, for the control of monopolies and, for prohibiting monopolistic and restrictive trade practices by controlling the activities of dominant or large undertakings as defined under the MRTP Act.

2.4.8 Competition Policy and Law

The Government of India appointed a Committee on Competition Policy and Law under the chairmanship of Mr. S.V.S. Raghavan in October, 1999 for shifting the focus of the law from curbing monopolies to promoting competition in line with the international environment. The Committee submitted its Report on May 22, 2000.

The main recommendations are as follows :—

(1) Enacting- the Indian Competition Act, alongwith the setting up of a Competition Commission of India (CCI).

(2) Repeal of the MRTP Act, 1969 and the winding up of the MRTP Commission.

(3) Pre-notification of mergers above a specified threshold limit, treatment of predatory pricing as an abuse only if a dominant undertaking engages in it, and the setting up of a two-member Merger Commission within CCI.

(4) State monopolies, Government procurement and foreign companies should be subject to Competition Law.

(5) Competition law should cover all consumers who purchase goods or services, regardless of the purpose for which the purchase is made.

(6) The unfair trade practices cases may be transferred to the consumer courts concerned under the Consumer Protection Act,
1986.

(7) There should be no reservations for the small scale industries sector's products, which are on the Open General Licence (OGL) for imports.

(8) Elimination of Board for Industrial and Financial Reconstruction (BIFR), repeal of Sick Industrial Companies Act (SICA) and the Industrial Disputes Act, 1947 as pre-requisites for a Competition Policy.

The report of the Committee is heavily biased against the MRTP Act and the Government should carefully examine the social and economic implications before deciding the implementation of the recommendations of the Committee.

2.4.9 Conclusion

In India, both public and the Government are against the concentration of economic power. The Constitution of India has enunciated Directive Principles of State Policy, which provide that the State shall, in particular, direct its policy

towards securing that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment. The Industrial Policy Resolution of 1956 has emphasised the urgency "to reduce disparities in income and wealth which exist today and to* prevent private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals". In spite of all these policies, there increased the concentration of economic power in India.

2.4.10 Short Answer Type Questions

Write short notes on following:

a. MRTP Act
b. Concentration of Economic Power
c. Extent of Concentration
d. Causes of Economic Concentration

2.4.11 Long Answer Type Questions

1. Explain the causes of economic concentration and its consequences.
2. Write down the steps taken by the government to reduce economic concentration of power.

2.4.12 Recommended Books

Datt and Sunderam Indian Economy
A. N. Aggarwal Indian Economy
Mishra and Puri Indian Economy
P. K. Dhar Indian Economy

LESSON NO. 2.5 **AUTHOR : DR. VIPLA CHOPRA**

POVERTY AND ECONOMIC INEQUALITY IN INDIA

I. Introduction

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

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

II. Objective

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

III. Poverty in India

(i) Concept of Poverty :

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

In India, poverty has been defined as that situation in which an individual fails to earn income sufficient to buy him bare means of subsistence. Seebhom Rowntre, in his famous survey on poverty states that people, whose income is insufficient for the necessities of life, are living in poverty. Prof. Theodore has aptly observed that poverty is an inadequate index of economic efficiency. There are four outstanding aspects above Indian poverty. First, the vicious circle of poverty of India, in fact, more vicious than that of other countries, whether underdeveloped or developed. India is poor because she is poor. Hence poverty is a chronic as well as persistent malady in this country. Secondly, we have chosen a very low standard as the poverty line in fact one that is below subsistence level. In the Approach Document to the Fifth Plan, the Planning Commission lays down that poor persons are those who are living below a basis minimum level of consumption more exactly,

below Rs.20 per capita expenditure per month at the 1971-72 prices. But, the size of Indian poverty is frighteningly large. The third obvious aspect about Indian poverty is that, on top of this huge size the poverty is being aggravated with the passage of time, in spite of our best efforts through planning. The fourth fact of Indian poverty is that it is quite vivid and visible.

(ii) Magnitude of Poverty

To appraise the size and urgency of the task of tackling the problem a rough measurement of the dimension of poverty is needed. To quantify the extent of poverty and measure the number of 'poor' in the country, professional economists have made use of the concept of 'poverty line'. Among these economists we may specifically mention the studies conducted by Bardhan, Minhas, Dandekar and Rath, Ojha, Ahluwalia, Vaidyanathan and Bhatty. In order to define the 'poverty line', all to these studies (a) have determined the minimum nutritional level of subsistence, (b) have estimated the cost of this minimum diet, and (c) on the basis of the per capita consumption expenditure, have delineated the line of poverty. Roughly, the same procedures are used in the various studies. For example, Dandekar and Rath use an estimated minimum calorie intake level of 2250 per day. To take account of the changes in the price level over a period of time. Minhas uses the national income defaulter, whereas Bardhan and Vaidyanathan use the agricultural labour consumer price index, on the ground that it is more representative of the price level facing the poorer of the population. Bhatty computed Sen's Index of Poverty, besides the head court ratio, separately for cultivators, agricultural labourers, and non-agricultural workers and by States, using alternative poverty lines. Some of these studies are confined to the rural sector, while a few look at both the urban and rural sectors. Similarly, most of the studies look at both India and State level data, while some are confined to the all India data only.

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

Table-1

Areas	1977-78	1983-84	1987-88	1990-91	1992 93	1994-95
Rural	51.2	40.4	33.3	19.72	22.9	19.3
Urban	38.2	28.1	20.1	10.8	13.0	9.5
Combined	48.3	37.4	29.9	17.4	20.3	1.6

Source : Taken from Indian Economy: V.K. Mishra and M.K. Puri.

According to the Seventh Plan document, 40.4 per cent of the rural population was below the poverty line in 1983-84. The corresponding percentage for the urban population was 28.1. The overall poverty ratio was 37.4 per cent. The Planning Commission's estimates of the poverty ratio for 1987-88 indicate further decline in the incidence of poverty. The Planning Commission has attributed this achievement mainly to the higher rate of growth, the increase in agricultural production and a substantial effort at providing employment on rural works through the Integrated Rural Development Programme (IRDP), the National Rural Employment Programme (NREP) and the Rural Landless Employment Guarantee Programme (RLEGP). Some economists have raised serious doubts about the claims of the Planning Commission (Table 2).

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

Table 2
Estimates of Poverty by Minhas, Jain and Tendulkar

Areas	1983	1987-88
Rural	50.8	48.7
Urban	39.7	37.8
Combined	48.1	45.9

Soure : B.S. Minhas, L.R. Jain and S.D. Tendulkar, “Declining Incidence of Poverty in the 1980s-Evidence verses Artefacts”, Economic and Political Weekly, July 6, 13, 1991.

Using the methodology suggested by Expert Group, the Planning Commission worked out the overall Proportion of population below the power line

was 39.6 percent in 1994-95. Separately, while in rural areas 40.7 per cent population was below the poverty line, in urban areas, the' proportion of population falling in this category was 36.6 per cent.

All the estimates of the incidence of poverty are based on the head-count which is peculiarly non-discriminatory. Amartya Sen has argued, "The poor is not an economic class, nor convenient category to use for analysing social and economic movements. Poverty is the common outcome of a variety of disparate economic circumstances and a policy to tackle poverty must, of necessity, go beyond the concept of poverty. The need for discrimination is essential."[1] Recently, Ozler, Dutt and Revallion in their study for the World Bank have estimated poverty gap ratio and squared poverty gap ratio for the period 1951-94). These estimates measure both depth and severity of poverty, besides incidence of poverty. These estimates clearly indicate that from 1950-51 to 1973-74 there was not long term time trend but thereafter there was a steady decline in the poverty gap index till 1989-90. In the early nineties, this trend was reversed and in 1993-94, the poverty gap index 9.1 for rural population and 7.62 for the urban population. Estimates of the squared poverty gaps show that until 1973-74 the severity of poverty had not declined as compared to 1950-51. However, since 1973-74 there is a sharp decline in squared poverty gap index for both rural and urban population.

Human Development Report 1997 introduces a human poverty index. The Report acknowledges that human poverty is larger than any particular measure, including the human poverty index. Table-3 shows that the human poverty in India is quite high. One major indicator of human poverty is a short life. In India nearly one fifth of the people are not expected to survive to the age 40. Secondly, in India, adult illiteracy rate was as high as 48.8 percent in 1994. Deprivation in economic provisioning is also high in India.

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

Table-3
Human Poverty in India

	Deprivation	Value
1.	Survival deprivation :	
	People not expected to survive to age 40% 1990	19.4
2.	Deprivation in education and knowledge :	
	Adult illiteracy rate (%) 1994.	48.8
3.	Deprivation in economic provisioning :	29.0
	3.1 Population without access to safe water (%) 1990-96	19
	3.2 Population without access to health services (%) 1990-95	15
	3.3 Underweight children under age five (%) 1990-96	53
Human Poverty Index Value		36.7

Source : UNDP, Human Development Report 1997, (New York, 1997) Technical Note, Table 2.1, pp. 126-7.

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

(iii) Nature and Causes of Poverty :

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

Underdevelopment :

India is poor because India is economically backward or underdeveloped. Underdevelopment has been the result of the meagre rates at which the economy has grown during the plans. The growth strategy pursued in our Plans, specially in the agricultural sector has not been seriously designed to fight poverty. We are unable to make an optimum use of resources. There is tremendous under

utilisation of land, labour and capital from the national point of view. Moreover, it is also wasteful in the sense that it makes excessive demands on public funds for modern technology and inputs and totally neglects the tapping of traditional and local resources, as well as self-generated resources. It is thus practical in its character in so far as the surpluses generated from modern agriculture do not contribute adequately to capital formation and growth, of non-farm sector, they are directed to various forms of conspicious consumption.

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

Unemployment and low level of wages :

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

Inequalities of income

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

Population Explosion

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

Social Factors :

Economic development is not merely a matter of economic resources; it also depends on urges, attitudes and aspirations of the people. Indian people lack initiative and resource fullness. They are fatalists by conviction. The caste system and the joint family system and the laws of inheritance are a great obstacle to

economic progress. Hence, poverty is the outcome. Just as India is poor in economic overheads, she is also poor in social overheads like education, public health and medical facilities. Thus Indian social institutions and attitudes hamper economic progress and are responsible for perpetuating poverty. Among Indians, ceremonies and customs are so elaborate and expensive that they reduce many to poverty. **Political Factors :**

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

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

(iv) Measures to reduce Poverty :

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

Acceleration of Economic Growth :

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

Rural Public Works :

To provide employment to the rural people, rural public works should be started on an extensive scale. Under this scheme of rural public works, the unemployed rural poor are employed on the construction of roads, wells, irrigation tanks, canals, bunds, anti-flood measures, rural electrification works, and so on.

With the help of rural public works, not only can the idle manpower be given employment and their poverty removed but capital assets and infrastructural facilities fqr agriculture will also be build up, which will help in raising agricultural productivity.

Land Reforms :

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

Rural industrialisation :

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

Incentives for Labour-intensive industries :

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

Provision of Common Services and Social Security :

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

Population Control :

Finally, a basic element in India's anti-poverty strategy has to be population control. Unless that is done, additions to wealth production will be eaten up by

the fresh torrent of babies. If population growth is not checked, our progress would be like writing on sand on the sea-shore with the waves of population growth washing away all that we have written. The country must intensify its family planning campaign if it is desired that all other measures suggested for the removal of poverty should succeed.

Accelerating the rate of surplus generation :

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

Stepping up agricultural growth in less-developed regions :

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

Organised action by the poor themselves :

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

(v) Government Strategy under Plans :

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

In the second phase, beginning with the Fifth Plan, poverty alleviation

came to be adopted as an explicit objective of economic planning several specific programmes for poverty alleviation and directed towards selected target groups were launched.

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

In sum, the assault on poverty in India during the period of economic planning has relied on four types of strategy : (i) growth, (ii) redistribution, (iii) basic needs, and (iv) targeted programmes, also known as poverty alleviation programmes. Most of these programmes are in the form of employment generation schemes aimed at the target group, i.e. the households living below the line of poverty.

The economic reforms under way in the Indian economy, as at present as part of the New Economic Policy and Structural Adjustment Programme, have been described as a part of the war against poverty, not an agenda for growth in itself. The SAP is basically a collection of those policies that are regarded as market friendly.

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

IV. Economic Inequality

(i) Meaning :

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

(ii) Relationship between economic equality and economic growth :

Inequality is that most intricate and bafflingly complex issue when juxtaposed with economic growth. Economists differ in their opinion regarding

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

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

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

(iii) The Dimensions of Inequality :

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

(i) Income inequalities

(ii) Assets inequalities

(iii) Regional inequalities

In India there is no official organisation to compile data on income distribution. However, the National Council of Applied Economic Research (NCAER) and some individual researchers have examined the pattern of income distribution in India at different points of time. Their results are not strictly comparable on account of differences in their methodology and data sources. Many extent and magnitude of inequalities of income have been studied on the basis sources. Many extent and magnitude of inequalities of income have been studied on the basis of available data relating to (i) income distribution, (ii) consumption expenditure, and (iii) distribution of saving in the country. The data relevant to income distribution is contained in a number of studies carried out to measure the extent of inequalities. The results of a few of these studies are summarised in Table 1 which will be helpful in grasping the seriousness of the problem as also in looking for the causes and for devising measures for reducing these inequalities to a desirable level.

Table 1

Different Estimates of Inequalities of Income in India

Source	Ojha-Bhatt	NCAER	Ahmed Bhatacharya	World Bank	World Bank	World Bank	World Bank
Period Covered	(Ave 1961-62) to 1963-64	1964-65	(1964-65)	(1975-76)	1983	(1989-90)	1992
Share of top 10%	35	33.5	31.4	33.6	26.7	27.1	28.4
Share of bottom 20%	7	7.5	7.5	7.0	8.1	8.8	8.5
Lorenz Ratio	0.377	9.39	0.372	—	—	—	

Source : (i) The Indian Economy by I.C. Dhingr a, p. 138.
(ii) World Development Report 1997, p. 222-3.

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

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

These results are given in Table 2

.

Table 2

Planwise Average Gini-Lorenz Ratio

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

Annual Plan Years

Source : N.S. Iyengar and P.R. Brahmananda; "Estimated Distribution Parameters and Their Behaviour", in P.R. Brahmananda and V.R. Panchamukhi (eds.) The Development Process of the Indian Economy

(Bombay, 1987), p.87.

Table 3: Inequality (Gini) For Major States

	1993-94			2009-10		
State	**Rural**	**Urban**	**Total**	**Rural**	**Urban**	**Total**
Andhra Pardesh	0.290	0.323	0.312	0.286	0.395	0.364
Assam	0.179	0.290	0.216	0.251	0.330	0.283
Bihar	0.225	0.309	0.253	0.234	0.358	0.273
Gurjarat	0.240	0.291	0.279	0.261	0.338	0.343
Haryana	0.314	0.284	0.311	0.310	0.368	0.339
Himachel Pardesh	0.284	0.462	0.325	0.314	0.415	0.336
Jammu & Kashmir	0.240	0.287	0.270	0.240	0.315	0.266
Karnataka	0.270	0.319	0.309	0.240	0.341	0.350
Kerala	0.301	0.343	0.316	0.439	0.527	0.473
Madhya Pardesh	0.280	0.331	0.315	0.297	0.367	0.351
Maharashtra	0.307	0.357	0.376	0.276	0.423	0.409
Odisha	0.246	0.307	0.282	0.268	0.401	0.326
Punjab	0.281	0.281	0.285	0.297	0.382	0.339
Rajasthan	0.265	0.293	0.280	0.230	0.396	0.300
Tamil Nadu	0.312	0.348	0.344	0.271	0.340	0.342
Uttar Paresh	0.282	0.326	0.302	0.281	0.367	0.322
West Bengal	0.254	0.339	0.308	0.245	0.393	0.338
All- India	0.286	0.344	0.326	0.300	0.393	0.370

From the results given in Table 2, we can draw the following conclusion :

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

the mid 1980s.

3. The Gini-Lorenz Ratio for the urban areas but 10 to 12 percent higher than the Gini Lorenz Ratio for the inequalities are higher in the urban areas than in the rural areas.

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

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

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

1. The NSS data which Iyengar and Brahamananda and some other economists have used for calculating the Gini-coefficients are not wholly reliable in respect of consumption expenditure of higher expenditure groups. The rich in India have a natural tendency to understate their consumption.
2. Further, over time saving rate in India has risen, lyengar-Brahmananda study should have taken note of this fact before arriving at the conclusion that economic inequalities have diminished merely on the basis of the private nominal consumption expenditure of the various groups.

(iv) Causes of Income Inequalities :

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

Private Ownership of Property :

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

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

(a) Inequalities in land ownership and concentration of tangible

wealth in the rural sector :

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

(b) Private ownership of industries trade and buildings :

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

(c) Inequalities in professional training :

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

Inheritance Law :

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

Other Causes :

1. Population Explosion/Rapid growth of Population

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

2. Inequity in credit facilities :

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

3. Urban bias in private investment :

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

4. Urbanisation :

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

5. Loose control of government over private sector :

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

6. Inflation and Price rise :

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

7. Unemployment/Insufficient employment opportunities :

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

8. Growth factor :

Strangely enough one reason is the growth itself. As development proceeds the earnings of different groups rise differently. The incomes of the upper income and middle-income groups rise more rapidly than those of the poor. This happens in the early stages of growth through which India is passing at present. The

explanation lies in the shift of population from agriculture to the modern largely industrial sector which grows more rapidly.

V. Measures to reduce inequality :

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

1. Land reforms and redistribution of agricultural land :

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

2. Expansion of the public sector :

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

3. Control over monopolies and restrictive trade practices :

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

4. Progressive Tax System :

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

5. Employment and Wage Policies :

Until the Fourth Five Year Plan the employment objective was not taken seriously.

However, since the beginning of the Fourth Plan, some special programmes have been undertaken such as the crash scheme for Rural Employment, the Drought Prone Areas Programme, self employment schemes for engineers, employment schemes for educated unemployed etc. These programmes were undertaken in an adhoc manner. No doubts these attempts are in the right direction, but the experience at the implementation level in the past has been very disappointing. Thus, a large scale employment expansion programme coupled with a policy to check inequitous and unfair wage differentials should be pursued. Policies which minimise unemployment should be expected to reduce inequalities, for example, subsidies doled out to the rural sector can be more efficiently used to create infrastructure and employment in the country side. Finally, the rural and urban poor have to be organised. Their vigilance alone can assure that the benefits of various laws, policies and schemes designed to benefit them to produce their intended effect.

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

V. Summary

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

VI. Suggested Readings :

1. K.V. Varughese: Indian Economy: Problems and Prospects.
2. Ishwar C. Dhingra: The Indian Economy.
3. A.N. Agarwal : Indian Economy : Problems of Development and Planning.
4. Reforms Land a helping hand to reduce poverty in 50th year of Independence Work Bank in Mounth Commentary, Aug. 1997.
5. Ashok Rudra, "Inequality and Economic Policy" in S.A. Shah (ed.), India : Degradation and Development.
6. V.M. Dandekar and Nilakantha Rath. Poverty in India (Bombay, 1971).
7. Mishra and Puri : Indian Economy, ed. 2006

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PROBLEM OF POPULATION

Is India over-populated ? Opinions continue to be divided over the question and there seems to be no unanimity on the issue so far. Diametncally opinions are held by different economists of the country. The first school of thought maintains that India is over populated and the validity of the argument is proved by the heavy pressure on land, massive food imports, fragmented and tiny size of agriculture holdings, steep rise in the number of agricultural labours and the low standard of living of the people. This view is supported by Radha Kamal Mukherjee (Food Planning for 400 Millions), Gyan Chand (India's Teeming Millions), Vera Anstey (Economic Development of India), L.E.C. Knowles (Economic Development of British Empire Overseas Vol. I), S. Chandra Sekhar (India's Population: Fact and Policy), Carr Saunder (World Population), P.K. Wattal (Population of India), K. Davis (Population of India and Pakistan) etc. Some of these antinatalists have gone to the extent of saying that "The internal enemy of India is too many people for the land to support. Demographically India has reached its saturation point." William Vogt opines "Mother India is the victim of her own awful fecundity. In all the world probably there is no region of greater misery and almost certainly none of less hope."

The other school of thought (or what is popularly called as the pronatalist) deriving its support from M. Visvevaraya (Planned Economy for India), S.K. Iyenger (Studies in India Rural Economies), Mitchell Kate (India without Fable), K. Goshal (The People of India), R.P. Dutta (Problem of India), G.S. Darve (Poverty and Population in India) etc. maintains that the abysmally low level of human existence is not a proof of over-population nor it is an index of country's inability to support the existing size of population but it is the product of "arrested economic development" on account of the wrong policies followed by the Britishers and inefficient implementation by the present rulers. They hold that under favourable conditions and adoption of latest technology India can support even a much larger population than what it does at present. Colin Clark argues that any foreseeable rate of population increase in all part of the world can be economically providedfor at a satisfactory and indeed rising standard of real income. Hence according to this School, India cannot be regarded as 'Over-populated' and the view that India is over-populated is "myth", "fable" or "fallacy."

Over-Population—What is it ?

Even during the pre-independence period the controversy was going on whether or not multiplication of human population had been one of the major causes of Indian poverty. The official view that had been in favour of the theory that over population was a potent cause of Indian poverty while politicians (i.e. freedom fighters) had generally opposed the theory because its acceptance would have exonerated the British Government from all blame or responsibility for the undeniable poverty of the Indian people. However, before we can arrive at any inference we must remember that over-population may be regarded either

as a state or as a tendency and instead of linking it with Malthusian yard stick, it is best to relate it to the idea of an optimum population. The idea of optimum population as explained by Cannan is as follows : "At any given time or which comes to the same thing, knowledge and circumstances remaining the same there is what may be called a point of maximum return, when the amount of labour is such that both an increase or decrease in it would diminish proportionate return..... just as a point of maximum return in each industry, so there must be in all industries taken together. If population is not large enough to bring all industries upto this point, return will be less they might be and the remedy is increase of population. If on the other hand, population is so large that the point has been passed, return as again less than they might be and the remedy is decrease of population." Over-population means a departure from the optimum in the direction of an excess of population.

Increased population means increased power which generally results in an addition to total wealth; but the most significant question is whether this addition is proportionate to the increase of population so that the share per head remains atleast the same as before. It is true that with every mouth God sends a pair of hands. But the question is whether the fresh pair of hands will be able to "pull their own weight." According to P.S. Florence, "when a given population shows signs of increasing in such a manner as to make us expect a diminution of income per head, we speak of a tendency to over-population." "When we have reasons for expecting that if a diminution in existing number were to occur it would lead to an increase per head, we speak of over-population." It is not uncommon to have both the tendency and the share existing together and in the opinion of many people, this is the case in India today.

However, the concept of optimum population is not a static but a dynamic one and the optimum varies with time. No definite view can, therefore, be expressed regarding the optimum population in India as it depends upon the consideration of innumerable variable whose precise magnitude cannot be predicted with any accuracy. The only way left to us, then, is to study the impact of population growth on economic development.

Table 1: Population in India

Year	Population in Crore	Birth Rate (per thousand)	Death Rate (per thousand)
1950-51	36.1	39.9	27.4
1960-61	43.9	41.7	22.8
1970-71	54.8	36.9	14.9
1980-81	68.3	33.9	12.5
1990-91	84.4	30.0	10.0
2000-2001	102.70	26.0	9.0
2010-2011	121.07	21.8	7.1
2013	-	21.4	7.0
2016	132.42	20.4	6.4

In case we find that growth of population is leaving a very deleterious effect instead of helping the economy, we can safely conclude that the country is "over-populated.

Population Growth & Economic Development

India's population is large and is growing fast. Some describe this rise as fantastic and call it a "population explosion." The use of term "population explosion" has been criticised on the ground that it is extravagant phraseology, but in fact, it is right. In the long run this exposition may cause as much damage to our economy as any nuclear war. Does rise in population help or hinder economic growth ? It is the answer to this question that enables us to understand the problem, formulate a correct population policy and assess measures that are being adopted.

(i) Population and pressure on land

The pressure of population on land in India is already very high and rising further as a consequence of growing number. In 1991, the density of population per square kilometre was 267, whereas in 1931, it was only 90. Not only that, the land man ratio in general is bad; it is worse when we consider population in relation to agricultural land. In 1911, the per head availability of head for cultivation was 1.1 acres which has fallen to almost half of that at 0.6 acre in 1971. Following Dr. Stamp that one acre of cultivated land is sufficient to produce an adequate diet for one person, we find simple evidence of over population in India.

The consequences of rising population are (a) it leads to sub-division and fragmentation of holding thus creating difficulties in the task of bringing about any improvement in the realm of agriculture, (b) it leads to increasing pressure on land finally resulting in increase in the number of disguisedly unemployed persons, and (c) it widens the yawning gap between the ever-increasing demand for food and slowly increasing output compelling the authorities to resort to massive food imports.

It is thus patently clear that high density and rapidly growing population act as a retarding factor and do not contribute to the economic progress of the country.

(ii) Population Growth and Capital Investment

There is 'little doubt that rapidly growing population imposes burden on countries trying to augment their per capita incomes (Possible exceptions may apply to countries like Australia which receive large inflows of capital, educated or atleast literate migrants and possess abundant natural resources). In case of an average less-developed country, the negative factors of excessive population growth are fairly obvious. If, as is thought possible, a country has a capital output ratio of 4 : 1. Professor G.C. Zaidan observed that over 65% of total investment in less developed countries are used just to prevent per capita income levels from falling, whereas the corresponding figure for a sample of developed countries was less than 25 per cent.

Now we know that it may be possible for the developed nations with a free

enterprises economy to benefit from an acceleration of population growth because such an acceleration helps them to avoid depressions. The 'babe boom' in the United States in the years following World War II was thus welcomed by many economists and business spokesmen as a guarantee against severe depression. Thus, it is quite possible that reductions in fertility in developed nations with a free enterprise economy may have detrimental results unless government acts to ensure that consumption is increased in other directions.

However, a very different relation between population growth and capital investment exists in the poor nations of the world. One of the major needs of the developing or less developed nations is for additional investment. Capital is needed for highways, rail-roads, communication system, electric power generators, irrigation, pumps, factories, machinery etc. Equally needed is further investment in human beings. A literate populace is necessary even to apply existing technology, a still higher level of education is necessary before a nation can adopt current technology to special local conditions. How this capital is to be raised?

Basically, there are only two ways for the less developed nations to increase their capital. Either they must obtain funds from abroad by loan or gift, they must obtain the money from within the economy by raising total income or by reducing total consumption. The leadership group of the less developed countries are usually very much concerned with increasing the level of investment in their nations through internal means.

How does a decline in population growth rate achieved through fertility reduction, affect the ability of a less developed country to raise additional capital sums to increase its productivity. Two relationships are relevant. First, a decline in fertility will result in fewer, depends per wage earners hence can be either motivated or forced to save a large proportion of his income, and secondly, any nation with a growing population must spend a certain proportion of its invested capital merely to maintain the same level of living standard. This amount will be saved.

Coale & Hoover complete their work by considering how 50 per cent decline in fertility might affect :

(1) Total amount of capital investment;

(2) The proportion of total capital investment applicable to improving productivity rather than providing for population increase; and

(3) Resultant increase in income per equivalent adult consumer. They assumed that 30% of increase in any income per equivalent adult consumer will be invested.

They do not assume any declining returns due to increasing scarcity of natural resources in India.

According to Coale & Hoover, after 10 years (i.e. in 1966), average income per consumer in the population with declining fertility would be only 30% higher than in population without fertility change. However, by 1976 it would be 14% higher. In 1986, it would be 25% higher. All these projections imply that fertility reduction will have a very substantial effect on the future course of economic development in India. By implication, it means that today we have a stage of over-population.

(iii) Population and Consumption Levels

The availability of food is growing concern in a developing economy like India. Even though India has made impressive gains in food production after independence, and per capita availability of food has not increased, because of the increasing millions. N. Sudhakara Rao has estimated that "one-thirds of the people are under-nourished and nearly half the people are mal-nourished."

(iv) Change in the Rate of Population Growth and the Dependency Ratio

The dependency ratio is defined as "the ratio of persons in dependent ages to persons in economically productive age to support those in the productive age group. Although the term dependent age can be variously defined, the accepted norm is "under 15 years" and "65 years and over." In a stable population, high fertility has a major influence in creating an elevated dependency ratio and that low mortality has a minor influence in the same direction. Therefore, stable population with high fertility and low mortality have the highest ratio of dependence to productive groups.

In their book "Population Growth and Economic Development in Low-income Countries" Coale and Hoover have prepared some very interesting projections of how changes in fertility and mortality affect the non-earning dependents to earners in India. But before looking at their projections, let us see what the present condition is :

Table-1

Working and Non-working Population in India

Population	Total Working population	Total Non-Working Population
1961 Census	182 million (42%)	256 million (57%)
1971 Census	175 million (34.2%)	372 million (65%)
1981 Census	220 million (37.6%)	464 million (62.4%)
1991 Census	315 million	529 million

(37.6%) (62.4%)

Now according to the projection prepared by Coale & Hoover which assumed declining mortality but no change in fertility, the ratio of dependents to wage earners would rise from 1:15 in 1956 (the actual figure) to 1:71 in 1986. On the other hand, according to the projection assuming the same decline in mortality but also a 50 per cent decline in fertility by 1981, the ration of dependents to wage-earners would have declined to 1:24 in 1986. It is clear from these figures that the level of living in the average Indian family would be greatly improved by such a reduction of fertility, whereas continued decline in mortality might threaten existing living levels merely by increasing the number of person dependents on each wage-earner.

(v) Population and Labour Supply

Labour is an active agent of production and any increase in population should be welcome as it will lead to an increase in labour supply. In advanced countries an increase in this factor has contributed significantly to economic growth. But in India, the shoe is in the other leg. The reason is that the problem now facing India is that of abundance of labour than that of shortage of labour. Unemployment in the country is not a problem, it has become a menace.

In terms of figures we find that the backlog of unemployment at the end of the second plan was about 10 lakhs and unemployment was estimated to be between 150 to 180 lakhs. The Committee of Experts on Unemployment (1973) under the Chairmanship of Mr. B. Bhagwant revealed that in 1976 to total number of unemployed in the country was 187 lakhs i.e. about 10.4% of the total labour force. It is not that there was no increase in jobs during this period or that there was reduction in them. Under the impact of planned development since 1951, there has been a considerable increase in the work for a large number of people yet unemployment has rapidly multiplied. Thus, the increase in the unemployed both in absolute and relative terms, indicate that during the last 30 years of economic planning the five year plans were not able to absorb the net addition to the labour force, not to speak of clearing the backlog of unemployed.

According to George Tobias, "there is one area of economic, social and statistical behaviour in which we can forecast with reasonable assurance..... It is the size and shape of the labour force to come every entrant to the labour force the next 51 years has already been born and we can not do a thing about it under present, social and labour conditions and practices." Increasing longevity and consequent longer force life, the number of persons 60 years and above, in their continuing to work reduces work opportunities for younger, more productive workers ceteris paribus. Thus, the problem of unemployment is likely to assume gigantic proportions

in future, if nothing is done to put a brake on the re-productive impulse of human beings.

(vi) Population and the burden on Education, Medical Care & Housing etc.

Illiteracy and ignorance reign supreme in India. According to the 2001 census, about 35 per cent of our population is illiterate. Most of the educational institutions are overcrowded. Rising population increases 'the number of children and hence demands higher expenditure on education. According to some estimates at the present, new children would need one or two fully equipped schools in each district every week. If we wish to fulfill the objectives of the national policy of compulsory education upto the age of 14, we shall need some half a million schools in the next 25 years. Expenditure per pupil is estimated to be about Rs.100/- per year. The population in the age group 6-61 was 236 lakhs in 1971 and, therefore, the increase in expenditure on education alone will be Rs.236 crores per year. And this does not include the expenditure on higher education.

Similarly, expenditure on medical care and public health also calls forth for further investment. To relieve the congestion in the cities and to provide roof over the heads of people more and more resources will have to be directed towards house-building projects.

Economic development is also closely related to the availability and use of country's energy resources. Population growth through increased consumption will aggravate the energy crisis.

Thus, we find that a rapid increase in the population of this country is eating into the vitals of the economy like a cancer. It is now hardly open to doubt that India is paying the penalty of unchecked procreation "so that the superfluous millions go down to fatten the third earth which could not fatten them. If new lives are brought into existence without restraint and the available means do not warrant of their proper maintenance, this is a clear cut evidence of over-population, and this is broadly the position of things in India. The main point at issue is not what we are capable of doing but what we actually are. Potentiality and actuality are two different things. Our hidden treasure's might feed the whole world if used to their full capacity, but at this moment, we have failed to supply even the basic necessities of life to our countrymen. It is said there are always three sides of a picture, yours, mine and the fact. And the fact is that stands over-populated today and threatens to maintain this tendency in the years to come. Hence the need for a population policy.

Population Policy of Govt. of India

The study of population problem as discussed brings out the necessity of containing the size of the population by controlling fertility. In the West, this result was achieved gradually and spontaneously after a slow process of change in

sociological and cultural patterns resulting from economic development and industrialization. Based on the experience of the West, rapid economic development and industrialization are often stressed as the best contraceptives. The United Nations observed "World Population Year" in 1974. In conference held under its auspices at Bucharest (Hungary), it was lelt that economic development was the best contraceptive to stem the eversurging tide of population growth. While discussing the theory of demographic transition it was pointed out that as income rise owing to economic development, people get used to higher standard of economic life. Once used to it people try to maintain that standard of living and consciously and voluntarily use those methods, which help in limiting the size of the family. This has been the experience of many developed countries (However, a very embarrassing situation for the demographers was provided by the United States in the fifties. Fertility in the US had increased despite the supposed fact that fertility would not rise once the final stage of demographic transition had been reached. Moreover, fertility had risen in a period which saw increased industrialization, increased urbanization and a dramatic rise in the level of economic development). Nevertheless to think that India's development will also look after, its population problem, is to expect too much. Indian is already having a very wide base of population and any delay in having a clear cut policy would be simply suicidal. Moreover, there is a vast difference in the conditions that exist in India today and those which existed in the western countries at that time. Hence just as economic development cannot be left to the unhampered operations of the market forces but is planned under the guidance of the state, population policies appear to be legitimate object of government intervention.

Thus, the aim of any population will be to reduce the growth rate. In considering the quantitative aspect, however, one must not lose sight of the need to improve the quality of the existing population by providing better diet, more medical facilities and cultural development. The objectives of the population policy, therefore, are two, viz. (i) to reduce the mortality rate, and (ii) to bring qualitative improvements in the existing population.

In government's view, the rapid population growth is not only an important constraint on development but it has assumed 'crisis dimension.' Hence, it calls for and all-over efforts and multipronged attach to curb it. The population policy of the Govt. of India has passed through the following stages :

(i) The period of supreme indifference (Pre 1947 period);
(ii) The period of neutrality (1947-51);
(iii) The period of experimentation (1951-61); and
(iv) The beginning of the policy of control (1961 onwards).

The first two stages were the outcome of the mistaken belief that there was no harm if the country's population was rising. That population is really a "problem which was realised for the first time in 1951. The next decade was a period of experimentation-tinkering here and tinkering there. It was only after the Second Plan that the programme of fertility control really had a start. The family planning programme, as it has been conceived since then, includes family limitation and reasonable spacing of children, treatment of sterility, marriage counselling and guidance, family life, education and other measures which aim at contributing the overall welfare of the family. According to Thiagarajan, “Family Planning, in short, is an instrument of social transformation, it aims at creating better parents, healthier children, better homes; It seeks to inject social responsibility into married life."

Family Planning & Five Year Plans

India is the first country in the world to recognise family planning as an official programme. As pointed out earlier, there was not fuller appreciation of the problem till 1961. Hence, the first plan provided a sum of Rs.65 lakhs for family planning. Out of this only 18 lakhs could be spent. The Second and Third Plan provided Rs.5 crores and Rs.25 crores, respectively. During this period, Research Institutes were set up in Bombay, Calcutta, Delhi and Trivandrum to study usefulness of family planning, a manufacturing unit was set up at Kanpur to manufacture loops. The Fourth Plan provided a sum of Rs.315 crores though the estimated expenditure on this count was, only 277 crores. The Fifth Plan had an allocation of 497 crores and the Sixth Plan provided Rs.2831 crores for the purpose. In the Seventh Plan, total of Rs.3256 crores were spent on it.

The cardinal aim of family planning programmes was to reduce the birth rate from 40 per thousand (in 1969) to about 30 by 1978-79 and to 25 by the end of 1985. The objective was sought to be known as "Cafeteria Approach". Besides, the government also tried to motivate the people towards family planning through education.

However, the desired result could not be achieved. The birth rate even in 1989 is around 305 per thousand. Our population is 68 crores and we have added 26 crores more souls to our population since 1947. Sensing that the problem is too large and too complicated to be solved by the "Red Triangle" alone, the government came out with a crash programme in April 1975. It included the following measures : (i) raising the marriage age of girls to 18 and of boys to 21, (ii) making 1971. census as the basis for representation in the Lok Sabha and State legislatures till 2001, (iii) sharing of central resources, devolution of taxes, grants in aid etc. on the basis of 1971 populations figures, till 2001, (iv) improving literacy of females, (v) introduction of population studies in educational system, (vi) increasing individual

monetary incentives for sterilization etc. The programme was impressive and comprehensive but it could not meet with success owing to the lack of public support. People started feeling that the emergency was being misused and the arm of the administration was being used to force sterilization. However, once the emergency was over, the programme received a great set back. According to the Department of Health and Family Welfare, there was a decline of 68% in the total acceptors of family planning and as much as 98% in vasectomy operations. But now once again it has received the requisite fillip and is back on the rails.

In short, as country, we have embarked rather slowly but certainly, surely and more seriously on the path of declining birth rate. Once a population learns how to bring down its birth rate, its fund is difficult to unlearn it. This means that we may not be far away from the time when the small is not simply a paper exhortatory, but is the common garden variety rule in our society.

Summary

Whether India is over-populated, or not is a moot point. Opinions differ. Pronatalists emphasize about the potential resources and the positive rate that human number can play in lifting the economy out of poverty. They argue that India can afford even a much large population. Anti-natalists, however, think that we have crossed the red mark and it is time to put a brake to our reproductive impulse. There being no completely satisfactory yard-stick to test the arguments of the above two schools, the best course would be to examine the effects of rising population of the economy. One all counts we find that unrestricted multiplication has proved detrimental to the health of our economy. Hence a need to have a population policy with a view to stemming the ever surging, tide of population.

The Govt. is fully concerned to problem and is now in a mood to implement the fertility reduction programme with all the seriousness. The result obtained so far do not match with expectation but seems to hold a gleam of hope.

Some suggestions in connection with Population Policy

An important method limiting the growth of population lies in controlling the natural factor. It involves (1) reducing the difference between the birth and death rates. Factors that have a bearing on the birth rate independently and help in reducing it, and (2) those which are deliberately chosen and planned to bring about reduction in birth rate.

The autonomous factors are per capita income, urbanisation, late marriages etc. After the per capita income rises above the level required to meet the expenditure of necessities of life the beneficiaries generally like to lead a more comfortable life rather than to have more children.

Urbanisation also reduces the birth rate. A big family is a liability in an

urban area. Family Planning is a deliberately chosen method. The birth of children then is by choice rather than by chance. The programme of family planning has to be imparted social respectability which in turn, will facilitate the whole task of limiting the number of children in the family.

The conditions relating to the growth of population differ in different states. In Assam, Haryana, Gujrat and Rajasthan, the growth of population is much higher. Again in Madhya Pradesh, Rajasthan, Bihar and U.P. girls in general get married at an early age. Such regions should be selected for intensive family planning work.

LESSON NO : 2.7 **AUTHOR : MRS. SAROJ CHAUHAN**

PROBLEM OF UNEMPLOYMENT IN INDIA

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

1. Theoretical Concept of Unemployment

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

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

For certain classes of people, the income criterion has to be used. A person may be fully employed in terms of hours that he spends in work but this work may not fetch him enough to rise above the poverty line. Hawkers, petty traders, workers

in services or repairs shops etc. In urban areas and some type of labourers in rural areas come under this category.

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

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

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

2. Types of Unemployment

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

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

(iii) Structural Unemployment : Structural unemployment arises either because of structural changes or because of structural imbalances in the economy.

We have abundance of unskilled labour, whereas capital, technical know how, some types of skilled workers and efficient entrepreneurs are in scarce supply. It is this type of imbalance that cause unemployment of labour and is most characteristic feature of under-developed countries. Structural unemployment manifests itself in the form of seasonal unemployment, disguised unemployment or simple open unemployment. Seasonal unemployment does exist to smaller or greater degree in almost all economies, even in those who may not have any significant extent of unemployment because of the very nature of certain unemployment, this problem becomes more serious because there is a shortage of employment opportunities for labour in the slack season both in self-employment and in finding employment with an employer. Another form that this structural employment may take is the perennial under-employment. Under employment exists when persons in employment are not working full time would be able and willing to do more than they are actually performing or when the income or production of persons in employment would be raised if they worked under improved conditions of work were transferred to another occupation. This can generally be seen in the form of petty trades in urban areas and in agriculture in the rural areas. An extreme form of this under employment is disguised unemployment. The term disguised unemployment was coined by Mrs. Robinson and later popularized by many economists like Nurkse. Arthur Lewis and Rosentein Rodan etc. Disguised unemployment is said to exist when the same farm output could be obtained with a smaller labour force without any change in the method of population. In other words, the marginal productivity of labour is zero and even negative at times. The third form that this structural unemployment takes is the form of open unemployment of able bodied, willing worker, educated and unskilled, looking for employment and dependent on other members of the society, come in this category.

3. Nature of Unemployment in India

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

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

Cyclical unemployment is more a phenomenon of an industrial and advanced country where the organised sector is very large. In those countries any measure to raise the level of effective demand will raise the level of employment but they may only raise the level of prices in a country like India, the reason being the shortage of

machinery and other co-operating factors. The instance of cyclical unemployment can be found in India also. The depression of 1980's did effect the employment situation in India. But unemployment in India is not mainly of cyclical nature.

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

Due to high rate of growth of population, the labour force has been correspondingly increasing. Inspite of the development efforts under various plans, the supply of complementary resources to productive use, this mass of additional labour force has not come forth. Unemployment in India, therefore is of the nature of structural unemployment and manifests itself in all its three forms : the first employment, the second disguised unemployment and the third is unemployment of educated and uneducated people, because of lack of sufficient agriculture resources, irrigation facilities and credit etc. We are still using primitive techniques in agriculture and most of the people engaged in agriculture remain unoccupied upto seven months a year. Because of insufficient development of subsidiary occupations like dairy farming, cottage industry etc., on a considerable scale and well organised basis, the slack season can not be properly utilised for increasing income and output. Decay of handicrafts has also led to the increase in seasonal unemployment in India.

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

Besides this type of under-employment the majority of the Indian under-employment is of the nature of disguised unemployment. Because of lack of sufficient growth of industrial and territory sectors in the urban areas, the employment opportunities remain limited there. This leads to a chain reaction. Lack of opportunity in the urban areas further encourages immobility of labour which is already there in an underdeveloped country because of various other factors. This leads preponderance of unskilled manual workers in the rural areas. Since the development of the rural industries is not sufficient due to lack of complementary factors of production, to provide alternative employment to surplus labourers, this leads to heavy pressure of population, on land and, therefore, to subsistence farming. Under such conditions, the earning of the people employed in agriculture are abnormally low and their work does not permit full utilization of their capacity. In other words, the marginal

productivity of labour is very low and zero and at times even negative. This type of under-employment has been termed by economists, disguised unemployment as we have discussed above.

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

Table:1 All India Rural and Urban Unemployment Rates for 2009-10

Estimate	Rural	Urban	Total	Total
	2009-10	2009-10	2009-10	2004-05
UPSS	1.6	3.4	2.1	2.4
CWS	3.3	4.2	3.6	4.4
CDS	6.8	5.8	6.6	8.2

Source: Indian Economy, V.K Puri & S.K Mishra

4. Magnitude of Unemployment

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

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

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

trend.

At the beginning of First Plan, there was a 3.3 million estimated unemployment backlog. About 9 million is estimated to be net addition to labour force, making a total of 12.3 million wanting jobs during the plan period. The plan could provide only 7 million jobs, leaving a backlog of 5.3 million for the second plan. Addition to the labour force was estimated to 12 million persons during second plan, making a total plan of 17.2 million wanting jobs. Calculation made by the Reserve Bank of India, show 10 million additional jobs were created during the second plan period. That gives a backlog of 7.3 million at the beginning of third plan. Addition to labour force during third plan was estimated by Planning Commission to be 17 million making a total job requirement of 24.3 million. Third Plan created only 14.5 million additional jobs, the backlog at the end of Third Plan was therefore to the other 9.8 million. According to Reserve Bank of India's estimates, the number of new entrants to the labour force during the period of three annual plans in between the Third and Fourth Plan was 14 million. Adding the backlog of 9.8 million, it makes a total job requirement 23.8 million during the annual plan period. Only about 1 million jobs were created during this period leaving a backlog of 22.8 million for the Fourth Plan. The addition to the labour force during Fourth Plan was about 21 million. According to Ministry of Labour and Employment, Government of India, the number of employment during the Fourth Plan period reached the staggering figure of 43 million. The Fourth Plan was expected to provide additional employment of the order of 12 to 14 million. In line with the suggestion made by the Dantwala Committee, no specific mention was made of targets for creation of employment during the Fourth and Fifth Plans. The accurate of the backlog of unemployment persons are also not available. The committee suggested the change in the statistical method used for assessment of employment. National Sample Survey (1972-73) estimated total unemployment at 20.4 millions. This appears to be an under-estimate.

In the Draft Sixth Plan (1978-79), the Planning Commission has estimated the existing level of employment and the future trend. This is done with revised concepts. Millions of people in India get some work for some weeks and months and remain idle for the rest of the period in the year. Therefore, the number of people chronically unemployed is very small. The figure is placed at 4.4 million out of total labour force of 265.3 million. The bigger problem is the disguised unemployment and underemployment. The Planning Commission, therefore tried to calculation unemployment on the basis of "weekly unemployment" and person day unemployment. Since lots of people remain unemployed for week together, it is better to measure employment in person day terms Working on the basis of 1973 NSS Survey, the Planning Commission has estimated that in April 1978, unemployment was at

0.6 person years 165 million in rural areas and 41 millions in urban areas. On the basis of this estimate, unemployment was about 8-9% of the total labour force.

Gigantic efforts and a re-orientation of thinking is therefore required. There was very little hope that in the near future India will be able to tackle this massive problem successfully.

5. Urgency of the Problem

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

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

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

Therefore, the problem of unemployment is not only economic. It has far-reaching social and political consequences for the economy. Therefore, if we want

the Indian economy progress urgent and effective steps will have to be taken on a war footing to solve this problem. It has thus become "Enemy Number One" for India. **Remedial Measures**

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

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

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

The largest share of unemployment in India goes to the rural sector. Self-employment in Indian agriculture tend to be served. Underemployment and wage-employment is often accompanied by spells of unemployment because of small size of holdings, seasonal creations and lack of adequate alternative avenues of employment. To solve the seasonal unemployment in agriculture, we have to revive handicrafts and encourage cottage industries like khadi and making of other small items. Besides this we have to encourage and help them start subsidiary occupation like dairy farming, poultry, breading, bee keeping, fish culture and semi procession' of primary products etc. by giving them technical help. Rural works programme consisting of a host of activities like building of rural infrastructure—consisting of road building, canal digging and provision of past facilities like drinking water schemes and building of schools, health centres etc. and also other activities connected with

rural economic development like soil conservation, afforestation etc. can all provide gainful employment to the rural people during the slack season. In the absence of lack during the slack season. 'Food for work programme' was one step in this direction.

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

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

Besides that various steps that can be taken to remedy the industrial unemployment in the urban areas are as follows. Firstly, adoption of labour intensive technology in industries other than basic and heavy industries like iron and steel, defence, chemical generation, oil installations, machinery etc. where the productivity is not significantly effected. Efforts should also be made to adopt the imported technologies to the country's resources endowments. Secondly, the encouragement should be given to small scale industries enterprises both as subsidiary to large industries and as independent units. Government is quite aware of the employment potential of the scale sector. Various steps that can be taken and are being taken to encourage this sector are reservation of some commodities purely for this sector, the Govt. purchases of some commodities entirely form the small scale

sector establishment of industrial estates, provision of cheap & easy credit etc. Small scale industries also help in the disposal of employment opportunities and involve less mobility of labour. Further since the small towns. Also linking up of small scale industries as ancillaries to large scale industries units will reduce the cost of production of big industries unit, since they can buy ancillary products at cheaper rates and will expand employment opportunities because the same buy ancillary products under the roof of the large scale unit employ more capital-intensive technique. For example, Hindustan Machine Tool Ltd. Purchase their requirement of components from a large scale industries is important if we want to make the best use of available capital in producing goods and providing employment opportunities. Government, therefore, has to take steps in remove the various bottlenecks lake power supply, raw-material, transport and foreign exchange etc. on a war footing to remove the obstacles in full utilisation of industrial capacity.

Another type of unemployment that is a great cause of concern is the educated unemployment in India. Lingering unemployment amongst the educated class is not only an economic evil but can turn out to be a great social problem endangering the stability of any Government. The number of educated unemployment increased from 5.9 lakhs in 1961 to 51 lakhs in 1976. In Feb. 2004 the number of job seekers registered with the employment exchanges, was of the order 4.11 crore out of which, approximately 70 percent are educated (10th standard and above). Another factor that has to be observed that is the percentage of unemployed amongst graduates and post-graduates is increasing whereas the percentage of matriculates amongst the postgraduates is decreasing. This shows that in the absence of employment opportunities there is a tendency of over education. The unemployment among the technically qualified people is also quite large. In 1976, there were over 18400 unemployed engineers in India. On the other hand, there is a shortage of skilled personnel like electricians, fitters, moulders etc. The existence of educated unemployment is partly the result of education system which is highly loaded in favour of liberal or general education and partly the result of low rate of economic development leading to insufficient employment opportunities for the educated and technical people. To solve the problem of educated unemployment we should on the one hand restructure out educational system and on the other entries the pace of economic development by speeding up the rate of investment and removing the bottleneck on production. By restructuring of the education as system is implied. First, liberal education should only be provided up to the middle standard and therefore the vocational lies secondary education should be imparted so that after the secondary education most of the people can take up jobs. Also for vocationalisation the institution should with factories. Second, college and

university education should only be open to those who have attained very high academic standards. Thirdly, the intake of technical institutions preparing people for engineering, medical, administrative and other commercial and technical jobs should be governed by proper manpower planning of economy, keeping in mind the requirement of such people at different times.

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

7. Steps taken during various plan periods

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

The measure however could not go very far in solving the unemployment

problem in the long run; the rate of increasing of employment depends upon the rate of increase investments. In the assessment of First Plan the Planning Commission says "employment opportunities have not been increasing *pari passu* with the increase in labour force. The increase in the investment in the First Plan has not been on a scale sufficient to absorb the new entrants to the labour market and there is a backlog of underemployment and unemployment to be made good." As we have seen, the First plan left a backlog of under employment of 5.3 million.

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

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

Only 1 million jobs could be created during three annual plans because this was a period of crisis for the Indian Economy. The economy was in the grip of recession during 1966-68 and therefore, obviously not many employment opportunities could be created. The backlog of unemployment at the beginning of the Fourth Plan was therefore between 22 and 23 million persons.

Unlike the earlier Plan there was no specific mention of the targets for creation of employment opportunities in the Fourth Plan. But one of the major objectives of the Fourth Plan was to create more employment opportunities in the rural and urban sectors to absorb the entire labour force. In the rural areas this was to be achieved through intensive schemes such as minor irrigation, soil-conservation etc. It was also stated in the Plan that according to recent experience, employment in the manufacturing industry played a crucial role in determining the volume of urban

employment. In April, 1971, the government announced a Rs.50 crores cash programme for creating rural employment. The cash programme aimed at providing jobs to 1000 people for 10 months in a year in every district, working on projects like roads, drains, minor irrigation etc. One individual was to get a maximum of Rs.100/- a month. Actually, Rs.100 crores were provided for this programme.

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

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

Like the Fourth Plan, the Fifth Plan also did not mention special targets for creation of employment opportunities but the expansion of productive employment was one of the important objectives of the plan. Following the production oriented approach it was started in the plan document that "in the Indian situation, possibilities of creating substantial additional wage employment by changing the product pattern of manufactured goods in the labour intensive direction in the organised sectore of the economy appear to be rather limited. It is more promising to think of generating additional employment by undertaking area-bound land improvement programmes or by giving incentives to small unit in sectors where there have potentially to be competitive with large scale units. "However sufficient emphasis was not laid in terms of the outlay. Only 16 percent of total quality was allocated to small scale sector. In the non-agricultural sector the planner felt the stepping up of the output of manufacturing sector was enough to create significantly higher employment than in the Fourth Plan. The target in the sectors of mining construction, electricity, railways etc. also were expected to generate substantial employment. It is clear that allocations and programmes of the Fifth Plan were not sufficient to productively employ all the unemployed in the country. Most of the targets were also achieved. The apparent crises let to the Plan a year earlier. It would be reasonable to conclude that the Fifth Plan made to dent on the problem of unemployment. Its objective to wipe out backlog of unemployment by the end of Fifth Plan had remain unfilled.

According to the studies conducted by Prof P.R. Brahmananda, it was revealed that alongwith the rising growth rate of population, the employment index grew at an annual rate of 29 percent during 1950-63 but declined to 1.9 percent the period 1963-75. This shows that the gulf between growth rate in work force and in employability has widened in recent years. During the period 1961-79, employment in the public sector grew at an average rate of 43 percent per annum and in the private sector by 2.0 percent. The growth rate of employment in the private sector,

has been very slow which is a disturbing factor for employment generations. There has been a rapid expansion of employment in the services in the private sector. Overall rate of growth of employment in the non-agriculture sector was 3.45 percent giving the period 1969-79 which is far from satisfactory. If we want to achieve full employment and therefore, a reorientation of the policies required. The Janata Government terminated the Fifth Plan a year earlier and the draft of Sixth plan (1978-83) was presented to the public. The focus of this plan was the employment objective. One of the principle objectives of the plan was removal of unemployment and underemployment. For this purpose, the elements of strategy included (a) enlargement of employment potential in agriculture and allied activities, (b) encouragement to household and small industries producing consumer goods for mass consumption, (c) to foster area planning for integrated rural development, (d) to raise the incomes of the lowest income classes. The plan purpose was to implement revised minimum needs programme. The expansion of infrastructure and social service i.e. road construction, electrification, water supply, rural school and community health schemes, besides irrigation power and house programmes was to help generate massive employment through expansion in construction activity and their secondary tertiary effects in raising agricultural productivity and incomes of the poor.

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

The total addition to the labour force during the period 1978 to 1983 was expected to be 30 million. The Sixth Plan was not only to absorb the addition to the labour force in employment but also absorb substantial backlog to unemployed. The Plan document has outlined the creation of employment amounting to 46.63 million person-years during 1978-83. To create gainful employment in the rural areas 'Food for work programme' was also started where the wages were paid partly in cash and partly in items of foodgrains. This programme was not conceived as part of integrated rural development programme and its magnitude was small. Therefore, inspite of being a step in the right direction, the programme failed to generate permanent avenues of employment. Vocationalization of education which is very important step in the employment generation programme of a country facing unemployment on a large scale was at even toughed upon. Thus, the employment policies of the Sixth Plan (1978-83) were laudable but the preoccupation of the Government with

political matters led to the lack of political will on the part of the government to provide adequate supporting measure to implement the well thought out ideas.

Sixth Plan (1980-85) and Employment : It was estimated that the total job requirement during Sixth Plan will be 48.3 million, out of which 12 million was the backlog and 34.3 million was the net addition to the labour force during the period 1980-85. Employment general on during the five year period is expected to be about the same as net addition to the labour force leaving the backlog at 12 million person. The generation of employment has been measured in standard person-years. If, however, we assume which is a fact that all the newly-employment cannot be on full time basis (i.e. 273 days a year), the backlog of unemployment will also be reduced. The share of agriculture in additional employment generation will be order of 43.5 percent, that of tertiary sector will be 33.3 percent and the secondary sector will amount for 25.2 percent of the total.

Two major goals set forth in regard to employment in the Sixth Plan are reducing the degree of under employment and reducing term open unemployment. Since the planner realise that absorptive capacity of the organised sector is very low because of fairly high capital ratio in this sector, only 12 percent of the increase in labour force can be absorbed there and therefore, self-employment ventures in agriculture, cottage and small scale industries and allied activities and non-farm occupations will have to be emphasised. Secondly, it is believed that the pace of mechanisation in agriculture will have to be carefully regulated as ensure that labour absorption as not mechanisation affected. Thirdly, keeping in mind the potential of irrigation programme in creation of employment directly and directly a massive irrigation programme with a high component of minor irrigation has been included in the plan. Fourthly, the employment policy of the Sixth Plan recognises the fact that productive employment has to be created and therefore labour intensive technologies have to be preferred those cases where the productivity not unduly affected. Khadi and small-scale village industries are therefore, to be encouraged, 379 items have been reserved by the Government for exclusive purchase from Small-scale sector.

The programme through which the employment oriented Sixth Plan, to increase the employment opportunities in the country are (a) the Integrated Rural Development Programme, which is expected to benefit 15 million families during 1980-85 and proposes to bring above the poverty line, (b) The Operation Flood II, Dairy Development Programme, which is expected to benefit 8 million basically milk producing families during 1980-85, (c) Fish Farmers Development Agencies, which are expected to benefit 9 million persons during the period 1980-85, (e) National Rural Youth every year to equip them for self -employment and to help them to set up their own enterprises, (g) Employment Generation Schemes and other special employment schemes

of the State Government of Maharashtra, Tamil Nadu, Madhya Pradesh and Karnataka, which are expected to benefit the unskilled labour, Minimum Needs Programme including water supply, health, roads and electrification of rural areas. Elementary education and house site are also expected to generate employment.

Basically, the employment policy of Sixth Plan remains the same as that of the Janata Party Sixth Plan. The new plan also attempts the reconciliation of the output and the employment objective. Some deficiencies and drawbacks can be pointed out :

Firstly, considering the annual rate of growth population to be estimated 2034 percent during the period 1980-85 and obviously it was not less in the earlier period, there seems to be an under estimation in the estimate of labour force in the year 1980 to the tune of about 10 million. This is also correspondingly reinforced by the data revealed in 1981 census. If this is so, the backlog will also increase by 10 million. Secondly, if the inflationary trend continues, the Government may be forced to prune the physical size of the plan and employment generation will correspondingly reduce. Therefore, even the expected 304 million jobs are not generated, the backlog will increase by more than 10 million. Thirdly, the assumption of increased agriculture productivity resulting from the programme of irrigation, leading to increased employment opportunities in the village and therefore transmission of benefits of growth to rural poor may not be wholly true. If most of the land is in the hands of the richer group, available irrigation facilities may encourage machanisation and therefore the expected employment opportunities may not increase. Besides that for small farms to effectively utilise the irrigation facilities the security of tenure has to be removed and credit facilities have to be expanded. Fourthly, the new Sixth Plan does not provide satisfactorily solution to the problem of educated unemployment. Some piece meat efforts here and there to vocationalise and reorient the educational will not serve the purpose. We have well coordinate schemes for the various levels of educational system for which no serious efforts are being made. Besides that event the people had having highly rationalised and technical training are also facing the problem of unemployment. It is estimated at by 1985, 1990 engineering degree holders, 85000 diploma holders and 10,000 agriculture graduates will be without jobs. To absorb these people we have somehow increased the absorptive capacity of economy. The comprehensive solution of the problem of unemployment considering both the demand and the supply has not been satisfactorily provided by Sixth Plan.

Overall the employment policies of Sixth Plan were basically sound but unless they are honestly implemented, the result cannot be encouraging. Also considering the magnitude of the problem, the Sixth Plan could not solve it

completely.

In the Seventh Plan, the magnitude of employment requirement was worked out to be 47.58 million. With estimated growth rate of COP at 5% and high purpose on govt. generated poverty eradication programme, the seventh plan mention "It is expected that additional employment order of 40.36 million standard person years would be generated during the seventh plan with implied growth of 3.99% per annum. The special employment of NREP and RLEGP would generate 2.26 million standard person; year of employment 1989-90. The employment generation from IRP has been estimated 3 million standard person years (SPYs) mainly concentrated in agricultural and others sectors."

In Seventh Plan, the agriculture sector was the main source of employment generation. It was projected to generate about 45% of total additional employment generation. Besides manufacturing and industrial sector generated 17.4% of additional employment. There were also high hopes on automation industries for employment generation in ancillary and service sector. Precisely, we can say that Seventh Plan, though followed the same strategy of Sixth Plan for employment generation, yet there was an added emphasis on technological upgrading and modernisation of productive processes.

Recently, the Planning Commission has used data of National Sample Survey (NSS) for making projection for Eighth Plan and onwards. Taking 28 million of this backlog of unemployed in 1990, net additions to the labour force during 1990-95 are expected to be 37 million. Thus, the total number of persons requiring employment during the Eighth Plan would be 65 million approximately. It is expected that during 1995-2000, labour force would increase by 41 million. Thus, by the year 2000 A.D., the total number of job seekers would be around 106 million. The Planning Commission, therefore concludes; Employment growth in the aggregate over the estimate employment of 300 million in 1990 would have to be about 4 percent compound rate if the goal of providing employment to all is to be achieved by the end of Eighth Plan, and over 3 percent per annum if it is to be attained by 2000 A.D.

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

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

social infrastructure so that the rate of economic growth can be accelerated. Third, utilise the surplus foodgrains to reduce unemployment and poverty.

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

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

In July 1959, the Planning Commission carried out a study to evaluate the programme. Some of the observations are : (a) 50.6 percent of the beneficiaries were agricultural labourer and 19.6 percent were non-agricultural labourers, that is 70 percent beneficiaries were labour household, (b) 80 percent of the beneficiaries were male and 20 percent were female, (c) As a consequence of the food for work programme, the income of the beneficiary households increased by 17.7 percent in the selected district, (d) The overall increase in employment was of the order of 10.9 percent, (e) A total employment of 3.7 lakh man a days was generated, (f) Total community assets worth Rs.421 lakh were created which included payment of streets, schools, buildings, dispensaries, internal drainage, drinking water wells, repair of minor irrigation works, flood protection funds, plantation work in forest areas digging of ponds, building of Harijan Chaupals, (g) Food for work component worked out about 60 percent and remaining was paid in the form of wages, (h) some non-traditional occupations have been started to help the growth of small scale industries.

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

Inspite of awareness of the magnitude of unemployment and its consequences of a developing country like ours, we have not been able to effectively tackle the problem of unemployment in India. We have not been able to bring down the rate of population to any where near the desirable figure. We have also not been able to step up the rate of investment to the level at which most of our labour forces can be gainful employed in the organised sector. In the absence of this happy situation, the

most suitable alternative is the development of a decentralized economy beside the large force can be organised sector. By the decentralisation we mean village economy should be developed. The development of cottage and small scale industry in the village in the form of production of handicrafts and textiles, utilisation of agriculture by products, processing of fruit and vegetables, repair shops for repairing agricultural machinery etc. encouragement of feeder industries like bee-keeping, poultry, farming, dairy farming etc. can all help to revitalize the rural economy and reduce unemployment. The state should help in the form of providing infrastructural facilities for the development of the rural areas.

To avoid unemployment of the educated people, we have to restructure our education system in such a way that the middle school qualified people, having general education should be trained to settle down in the villages and earn a reasonable livelihood. The secondary education should be vocationalised and such institutions be liked with the factories so that these people can be absorbed in research and education institutions etc. The requirements of technical personnel should be tailored to the needs of organised sector. This does not mean that government during various plan periods has not taken the steps in the right direction nor does it mean that no success has been achieved but what is lacking is the political will to reinforce things and carry them out effectively. Unless we change the socio-economic set up and effectively implements the policies that we make, keeping in mind the objectives set before us, the desired result can not be achieved. For this we require a dedicated task force of people who should commit themselves for achieving results and this, though not impossible, is a difficult task for a democratic socialistic set-up like ours.

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REGIONAL IMBALANCES IN INDIA

Concept & Scope

"Poverty anywhere is a threat to prosperity everywhere", so said the Declaration of Philadelphia. India started on the path of planned economic development in 1951 with the objective to securing a balanced development of different parts of the economy, extension to have benefits of the economic progress to the less developed regions and wide diffusion of industry. Term balanced growth was thought to be a *sine quo-non* for the smooth and harmonious development of a federal state like India. But what do we find today? A cursory glance at the economy would unfold a very dark and gloomy picture. There are states where majority of the people are rolling in money and there are states where people are groveling in poverty; there are states which produce from pin to plane and there are states where the industries development is not only tweedy but even disappointing. Even within each of the 28 states, some regions are more developed while some are almost primitive. The existence of relatively developed and economically depressed states and even regions within each state known as regional imbalance. Regional imbalance may be natural due to unequal endowment or man-made in the sense of neglect of some regions and preference of others for investment and development effort. It may be inter-state or intrastate; the imbalance may be total or sectoral.

The two aims i.e. an increase in national income and a more balanced development of different sectors of the economy are related to each other and step by step, it becomes possible to create the atmosphere that all the resources are fully utilized. In each region the nature of the problem and impediments to the rapid development in particular fields should be carefully studied measures devised for accelerated development. The essential object should be secure that fullest possible utilization of resources of each region, so that it can contribute its best of the national pool and takes its due share from the benefits accruing from national development.

Indicators of Regional Imbalance

In sympathy with the historical trend of regional inequalities as in the case of advanced and developing nations, in India also some of the states achieved higher rate of growth in terms of per capita income and other indicators of economic development. The geographical vastness of the country with diverse economic

resources and endowments and social values has further aggravated the problem. Different norms and indices have been used by academicians to measure and quantify regional inequalities with the boundaries of nation. Prof. Raj Krishna (in his article "The Centre and Periphency" published in the Economic Times of 15, 16 & 17th May, 1980) has conveniently grouped the indicators of inter-state disparities in six broad categories :

(1) Indices of income, poverty and unemployment;
(2) Agriculture indicators;
(3) Industrial indicators;
(4) Infrastructure indicators;
(5) Social services indicators; and
(6) Resource allocation indicators.

Let us try to study them in greater details.

(1) Indices of income, poverty and unemployment :

About 72 percent of the poor population of major states is concentrated in 7 states viz.; Andhra Pardesh, Bihar, Madhya Pardesh, Maharashtra, Tamil Nadu, Uttar Pardesh & West Bengal. If Orissa and Karnataka are added to this list, 43 percent of the poor population of 15 states would account for. The same seven states accounts for two-thirds of the total unemployment in the country. In five of the States, unemployment rate exceeds 8 percent. Data collected in the second round of the N.S.S. also shows that the poor household shows that the poorest household suffer from the highest rates of unemployment. In households, spending less than Rs.ll per capita per month on consumption, the unemployment rate was as high as 29 percent in urban areas and 22 percent in rural areas. In higher expenditure brackets, the unemployment rate fill steadily.

In states with a high per capita income, have a low poverty ratio and vice versa. Thus, for instance per capita income in Punjab is nearly 2.5 times higher than the per capita income in Bihar. But the poverty ratio in Bihar is 2.5 times the poverty ratio in Punjab. Only in West Bengal & Maharashtra, higher per capita income is directly related to the high poverty ratio. The industrial development in these States has pushed up the per capita income but the benefits have failed to percolate to the lowest rung.

In short, indices of income, poverty and unemployment show wide regional disparities continue to plague our economy. However the most disquieting feature is that the disparities have tended to accentuate with the passage of time. According to Prof. Raj Krishna, the coefficient of variation of State Domestic Product per capita across States fall from 26% in 1950-51 to 24% in 1960-61 (indicating a slight fall in disparities) "but rose to 26% in 1970-71 and to 33% in 1977-78

showing a significant rise in regional disparities.

(2) Agricultural Indices :

A recent study to agricultural growth at the district level by Professors Bhalla and Alagh, has shown that growth has been extremely desperate across regions. Of the 289 districts covered by the study as many as 71 (i.e. about 25%) recorded negative growth during the period 1962-65 to 1970-73. In another group of 62 districts, growth was positive but very low i.e. less than 1.5 percent per annum. In short, in nearly half (46%) of the districts, agriculture was stagnant or declining. Only 50 districts (i.e. about less than 20% of the total) achieved a high rate of growth rate over 4.5% in any of the other states viz. Andhra Pardesh, Bihar, Kerala, Madhya Pradesh, Maharashtra, Orissa, West Bengal, Himachal Pradesh, Punjab, Haryana, Rajasthan and U.P. alone had large number of districts showing a high growth rate.

In short, all these indications also confirm to the existence of sharp regional disparities in the country.

(3) Industrial Indicators :

The regional disparities are also brought out clearly by the industrial indicators which include value added by manufacturing per capita and percentage of workers engaged in manufacturing etc. The figures for 1976-77 indicate that the highest value added by manufacturers was recorded in Maharashtra (Rs.413) and Gujarat (Rs.322) at the other end of the scale were Bihar (Rs.8) and U.P. (Rs.9) with the very low contribution. Haryana, Karnataka, Tamil Nadu and West Bengal formed the middle group. In regard to the proportion of workers in manufacturing, the figure was 12% or more in Gujarat, Maharashtra and West Bengal. In the industrially backward states like Bihar, Madhya Pradesh, Orissa and U.P. It was between 5-7%.

Once again the inescapable conclusion is that Indian economy present a picture of wide regional disparities.

(4) Infrastructure Indicators :

According to Prof. Raj Krishna indicators like proportion of villages electrified, road length per 100 km. etc. are some of the infrastructure indicators which can also be pressed into a service to know the extent of regional imbalances. It has been observed that more than 5% of the villages in Andhra Pradesh, Assam, Haryana, Rajasthan, Madhya Pradesh and Jammu and Kashmir, about 35% in other five states and 25% in U.P., Bihar were without adequate water supply in 1977-78. The per capita consumption of power in Punjab, Maharashtra was the highest while it was the lowest in U.P. and Andhra Pradesh. In respect of the rural electrification, only Punjab, Haryana, Kerala and Tamil Nadu have completed

the electrification of their entire country side. But Rajasthan, U.P., Bihar, Madhya Pradesh, West Bengal and Orissa have not even reached the target of 33%. In regard to the total per 100 km. the position in 1975 indicated that Kerala and West Bengal were the most advanced while Rajasthan, Orissa, Madhya Pradesh, Jammu & Kashmir etc. were still lagging behind.

(5) Social Servicesz Indicators :

These indicators included per capita expenditure on health and education, literacy rate etc. The Centre for Monitoring the Indian Economy, Bombay, has estimated the Physical Quality of Life Index (PQLI) for all the years 1975-76. The index has been calculated with the methodology developed by the Overseas Development Council. The index includes infant mortality rate and life expectancy at birth (as indicators of health status) and literacy rate as indicator of educational status). The PQLI has turned out to be the highest (=100) for Kerala and lowest (=5) for U.P. The index exceed 56 for only 3 states (Haryana, Maharashtra & Punjab). The other indicators also point out to the fact that literacy rate range from 30% in J&K and 31% in Bihar to 86% in Kerala. The state expenditure on education per capita range from Rs.8 in Bihar and 9 in U.P. to Rs.36 in Punjab; the expenditure on education per capita is Rs.64 in Kerala.

Thus, the imerence is obvious. The regional imbalances are still ruling the roots.

(6) Natural Resources Indicators :

The fact of regional disparities can also be brought out mere clearly by natural resource indicators. Bihar and Madhya Pradesh alone contribute to 40% of the total mineral wealth in India. Together they carry 63% of total known coal resource and 92% of the iron ore resource of India. Orissa alone has 21 % of India's iron ore, 39% of manganese, 86% of chromite and 50% of bauxite resources. On the other hand, Andhra Pradesh, Madhya Pradesh, Kerala, Orissa and Himalayan States are endowed with rich forests belts. But all these States are amongst the poorest in India. Commenting on this Prof. Raj Krishna observes, "The data contradicts the facile theory that the poor regions are poor because of their poor natural resource endowment. What keeps them poor is not the paucity of natural resource but the insufficiency of investment. Areas will high initial rate of capital formation continue to have a growing infrastructural case and a pool of skills and surplus of investment. These not only have ample resources of their own but also a steady inflow of labour and capital from low investment regions. In the low investment regions on the other hand, the various circle of insufficient infrastructure, income and market growth and export of skill and surplus sets in."

Thus, the above fact clearly establish the persistence of and in some cases, an increase, in interstate disparities in the movement of various indices of economic development. The Sixth Five Year Plan has mentioned 17 criteria relevant for determining the prevalence of backwardness. They include density of rural population, percentage of urban population to total population, percentage of Schedule Castes and Schedule Tribes, percentage of area irrigated, agricultural output per hectare, farm investment, per cultivator household and rural unemployment rate, consumption standard of weaker sections in rural villages electrified etc. The Sixth Plan has attempted to identify the following backward areas :

(i) High population density areas in the Gangetic Planes : These areas have high potential for agricultural production which is not fully utilised, so that agricultural yield rates tends to be rather low. There is severe pressure on land due to heavy population pressure. The debt bondage to landlords and money lenders is quite high.

(ii) Areas with exceptionally low agricultural productivity : These areas are mostly found in central and western India generally fall in drought prone belt. Many of these have high density of population with limited opportunities for non-agricultural employment.

(iii) The North East : The problem of this area arise partly from its remoteness from national market and partly from socio-culture base.

(iv) Tribal Areas : They are generally found in two compact blocks, one in the north eastern part of the country and the other in central and eastern India. In the former case, the problems are locational and social. As regards the latter we come across large areas of modern industry coexisting with backward rural environment with heavy unemployment.

(v) Ecological problem areas : These areas refer mostly to desert areas which have limited scope of economic development. Besides the provisions of basic facilities in these areas necessitates high costs.

The above list is not exhaustive. According to the Sixth Plan "certain regions regarded as developed may include districts which are backward and primitive. Likewise in the midst of a backward area, there may be districts which are highly advanced."

Causes of Regional Imbalance :

There are certain factors which stand in the way of rapid development of a region. Some of these factors are geographical in nature, some historical and some relate to the inadequacy of economic overheads like transport, labour, technology etc.

(i) Geographical Factors : There are certain areas in our country which are geographically inaccessible. These areas have continued to be backward because of difficult mountain terrains. That is why the Himalayan State; viz. Northern Kashmir, Himachal Pradesh, the Hilly districts of U.P. and Bihar and NEFA have all remained economically depressed. Climate too plays a cardinal role in the backwardness and low economic development of many regions as reflected in low agriculture output and absence of large scale Industries. It is time that man has been able to modify the effects of climate but there is little a man can do to combat arctic cold or assuage torrential tropical rain. Soils, plant growth, animal husbandry, house types, out door activities, communication are all to a greater or lesser extent, influenced by the conditions of temperature, rainfall and sunlight experienced in region.

(ii) Historical Factors : The historical causes have also played their part in keeping a region economically backward. The British helped the development of only those regions which possessed the facility for prosperous manufacturing and trading activities. Maharashtra and West Bengal were states preferred by British industries. The land tenure policy of the British was also titled heavily in favour of big landlords and the ordinary farmers were systematically pauperised. The absenty landlordism with its concomitant evils hadsa very deleterious effect on the health of certain region is comparison to those which the British helped to develop.

(iii) General Factors : Owing to locational advantages, some areas received preferential treatment. The location of oil refineries, iron & steel plants etc. will entail lot of concentration and have the factors will be located only in those areas where the requirement exists. Finally, the private sector always like to gravitate towards already developed regions would exert a centripetal force to attract new ventures. Thus, some areas will continue to have investment in starvation while other will continue to have investment in abundance.

(iv) Nature of Development during the planning : Since 1951, regional imbalances have developed as a result of economic planning. There is no gain saving the fact that the Industrial Policies Resolution of 1956 had balanced regional development as one of its principle objectives, but in practice, the planners have completely ignored this aspect. Since 1951 considerable investments have been concentrated at a few places like Bombay, Ahmedabad, Delhi, Kanpur, Calcutta etc. on "efficiency criterion". These areas are knows have their own problems to solve. The above mentioned growth centres "act as suction pumps, pulling in more dynamic elements from the more static region", thereby causing sinuous brain and resource drains from the adjoining areas. Secondly, the adoption of

new agricultural strategy during the 1960's have also aggravated regional economic
disparities. The farmers who had irrigational facilities were favoured while those putting up in dry areas were ignored. Thirdly, while some State Governments devoted much attention to strengthen their economic muscle, others continued to indulge in political squabbles. That is why Punjab, Haryana, Gujarat, Maharashtra, Tamil Nadu developed more rapidly in comparison to other regions of the country. Finally, even the public sector investments in certain areas have failed to develop the region as necessary ancillary industries were not developed synchronously. That is why Rourkela, Bhillai, Barauni, etc., have remained backward notwithstanding heavy investment by the centre.

Regional Imbalances and Five Year Plans :

An accelerated development of backward areas with a view to reducing imbalances, is one of the important objectives of economic planning in India. Successive Five Year Plans have drawn our attention to this problem and emphasized that the realization of the growth potential of the backward areas should be taken up on a priority basis in order to give a practical shape to the ideals of egalitarianism and social justice. In view of the emphasis laid on increasing the living standards of the poor, it has been stressed that the strategy for socio-economic development should be structured in such a way that the relatively disadvantaged areas with slice of population are gradually drawn in to the main stream of development process. Hence balanced regional development has always been one of the main objectives of economic planning in India. Let us have a synoptic view of the various considerations laid by the various plans in regard to establishing balanced regional growth.

The first plan did not refer to the problem of regional disparities. The second plan admitted that, "in any comprehensive plan of development, it is axiomatic that the special needs of the less developed areas should receive due attention. The pattern of investment must be so devised as to lead to balanced regional development." However, the problem of backward areas was tackled largely through device of scarcity relief works which could not better the lot of these areas. The Third Plan programmes for the extension of economic growth to the efforts to the less developed regions and wide diffusion of industry were suggested as part of the efforts to redress inequalities between different parts of the country. That is why the Third Plan programmes were so prepared "as to reduce disparities of development between different States, although in the nature of things it is a process which must take time." Thus, it provided the schemes to "enlarge the possibilities of development in areas which have in the past been relatively

backward." The Fourth Plan took a comprehensive view of the factors of backwardness and proposed a multidimensional predevelopment approach, since each backward area presented unique combination of factors, it was felt that an estimated prerequisite for accelerated development was the evolution of appropriate location with specific objective based on causes of backward areas into; two categories : (a) Areas with unfavourable physiogeographic conditions, terrains, climate and region inhabited by people with typical cultural characteristics. These include hilly areas, drought prone areas and tribal areas, (b) Economically backward areas marked by land-man ratio, lack of infrastructure or inadequate development of resource potentials. The policy for the Fifth Plan in regard to the accelerated development of backward areas was formulated on this basis of the consideration that allocation of adequate financial resources is only one of the many steps necessary for the rapid development of these areas, the development of the suitable norms, procedures, the technologies and the strengthening of financial, promotion and consultancy institutions etc. are equally important.

The Sixth Plan is discarding the Fifth Plan approach to backward area development based on wide ranging and non-selecting incentive the industrial on the one hand, special programmes directed towards specific problem on target group on the other Industrial investment specially on organised industries has not been particularly effective to help backward areas. The Sixth Plan has, therefore, decided to emphasize integrated rural development and minimum needs programme.

An important objective of the Sixth Plan is to bring out a progressive reduction in regional inequalities in the pace of development and in the diffusion of technological benefits. The plan is rightly observed, "it should be generally accepted that fulfillment of objective growth requires upgrading the development process in the backward region rather than curtailing the growth of these regions which have acquired a certain momentum. Thus, the measure to be pursued for the reduction of regional inequalities have to be consistent with a general objective of achieving 5% growth rate in the economy as a whole." It further observes, "a solution to the problem of inter-regional disparities or backwardness cannot emerge solely from resource redistribution and special schemes. What is required is a systematic attempt to identify the barriers to development and concentrate all resources and efforts towards breaking these barriers." To achieve this objective, the plan has proposed three lines of action :

(a) Special development programme for backward areas;

(b) Central policies with respect to resources transfers, tailored to the benefits of backward regions and broadly in relation to the

efforts made by the states in this regard; and

(c) Central' policies to provide incentive to private entrepreneurs.

Thus Sixth Plan has placed considerablje emphasis on rural development, employment regeneration, integrated area development and appropriate technology to stimulate the growth of backward area and lead to reduction in disparities. The plan has provided Rs.2800 crores for backward area development with a basic objective of mitigating extreme poverty and unemployment.

Policy Measures to Remove Regional Imbalances :

The Planning Commission in India has sought to tackle problems of backwardness particularly in three ways :

(1) The recognition of backwardness as a factor to be taken into account in the transfer of financial resources from the centre to the states;

(2) Special area development programmes directed at development of backward areas; and

(3) Measures to promote private investment in backward areas. Let us study these policy measures in some details.

(i) Resource Transfers : Under the present arrangement, resources are transferred from the centre to the state through (a) the Finance Commission, (b) the Planning Commission, and (c) adhoc transfers by the Ministry of Finance. Over 29 years ending 1978-79, the aggregate resources transfer adds up to Rs.57.441 crores. In the formula used by the Finance Commission and the Planning Commission for the distribution of resources among the states, the main factors used are (a) Population, (b) Tax collection, (c) Some index of backwardness and (d) Outlays required for large irrigation and power projects for upgrading of particular services. The emphasis on the population factors to which 60-90% weight has been given in different formula is understandable, but allocation in proportion to tax effort and the expenditure on big projects generally tend to the regressive in character. It is, therefore, desirable that these criteria be omitted all together from all allocations formula. Allocation according to Prof. Raj Krishan, ought to be made only in proportion to population and an appropriate index of backwardness. It has been suggested in the minutes of dissent to the Seventh Finance Commission that the simplest and the most desirable index of backwardness of a State is simply its poverty ratio.

(ii) Special Area Development Programmes : The Sixth Plan has recognised that the resource base of backward States is narrow and that these suffer from one and more of the natural factors which inhibit the prospects of growth of these areas; scanty rainfall, frequency of floods, difficult terrains, desert areas and so on. Specific schemes have been formulated with central assistance to

develop hill regions, tribal areas, drought prone areas etc. Moreover schemes from integrated rural development programmes with a vital to reducing unemployment have also been launched.

(iii) Promotion of Private Investment in Backward Areas: Central policies have been designed to provide incentives to entrepreneurs through schemes of concessional financed/margin money schemes, central investment subsidy schemes, tax relief, specific interest, subsidies etc. All these measures have been provided in order to tackle the problem of industrial backwardness and to promote private investment in these areas. In 1977-78 the total assistance sanctioned by the IDBI, IFCI, ICICI etc. to project in backward areas was nearly Rs.512 crores which was approximately 47 percent of total outlay. According to newspaper report (The Hindustan Times dated 4-3-1982), the nationalised banks have been directed to extend loan at concessional rates to those who like to set up industries in backward areas. It has been found that 81 districts in the country do not have medium or large scale industries.

The National Committee on Development of backward areas has submitted a report on industrial dispersal and has made a number of recommendations concerning the development of backward areas. The committee has observed :

(i) that the central investment subsidy and the Scheme of concessional finance have benefited only a small number of districts mostly in close proximity to relatively developed centres;

(ii) that the licensing policy is only a negative instrument and cannot promote industrial development in backward areas; and

(iii) that the availability of concessional finance and subsidy has been a significant motivating factor in persuading entrepreneurs to locate their units in backward areas. The Committee has recommended the establishment of the Industrial Development Authority, which should on a commercial basis to provide the necessary infrastructure and to channel development funds which be allowed by Central or State Government.

Critical Appraisal :

A critical estimate of various steps taken by government to remove/ reduce interstate imbalances point out to the fact that not much has been achieved so far. The main conclusion emerging from the above analysis is that there are wide and profound variations in respect of per capita income and in industrial sector and further that over a period of time these disparities have grown in intensity and perception. The reasons of these imbalances to continue are not far to seek. Firstly, a great drawback of all the schemes is that there is hardly any feed back

about the actual physical progress of these schemes. There is a wide spread feeling that most of these plans are mere paper plans without techno-economic teeth and without a corresponding real action on the ground. Leakage of vast fund into the hand of bureaucracy itself and/or the local oligarchy is also suspected. These feelings will continue to region supreme until area planning is made a professionalized and specialised activity in the hands of strong projects formulation bureaus in every district/block; and regular, detailed and independent monitoring/evaluation progress is organised. Secondly, majorities of area development schemes are designed to help drought prone areas or hilly areas or those inhabited by schemes tribes. There is no integrated approach to the problem. The plans (First to Fifth) just "nibbled" at the problem. Only, Sixth Plan has come out with an integrated rural development strategy. Thirdly, the effect of industrial incentives and suhsidies remains to be evaluated. Fourthly, the figure of utilization of outlay in the First Five Year Plan show that in four of the six backward states, percentage utilization of outlays provided has been much less. Fifthly, the method of locating large central projects in the backward states has not paid off in improving their economies. The per capita state wise investment in central industries as on 31-3-71 was the highest in Orissa (Rs.215), followed by Bihar (Rs.165) and Madhya Pradesh (Rs.139). And we know where do these states stand in the matter of economic development. Lastly the state Government alone should tackle the problems of intra-states imbalances and local plants the main plank of any strategy for balanced development.

Thus, we find that efforts are being made to reduce the regional imbalances : but unless all states earmark separate outlays for the development of backward and special problem areas, nothing sufficient can be achieved. In India regional imbalances cannot be slowly identified in terms of anyone of the indicators. In the context of Indian Economy, the problem of multidimensional is what Friedman termed as "Syndrome of Collective Poverty." It is, therefore, absolutely imperative for the fact that without special efforts, including allocation of separate fund, disparities between different areas will not be reduced, leave alone eliminated.

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