INDIAN ECONOMICS

M-211

Self Instructional Material

Directorate of Distance Education

SWAMI VIVEKANAND SUBHARTI UNIVERSITY
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UTTAR PRADESH

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CONTENTS

SYLLABUS

M-211 **INDIAN ECONOMICS**

Unit-I

INDIAN ECONOMY: Sectoral divisions-public sector, joint sector, private sector, cooperative societies, small scale enterprises.

Unit-II

ECONOMIC GROWTH, DEVELOPMENT AND UNDERDEVELOPMENT: The concept of economic growth, Meaning contrast of economic growth and development. Under development indicators, common characteristics of underdeveloped countries. Factors in Economic Development, Strategy of growth: Balanced vs. Unbalanced growth.

Unit-III

ECONOMIC PROBLEMS OF GROWTH: Saving and capital formation, poverty, unemployment, inflation, parallel economy, industrial sickness.

Unit-IV

NATURE OF INDIAN ECONOMY: India-A developing economy, A dualistic economy, A mixed economy.

Unit-V

NATIONAL ECONOMIC PLANNING: Planned Economic development since 1951 (objects, achievements and constraints). Five year plans, Assessment of Indian Planning.

UNIT – I

INTRODUCTION

NOTES

STRUCTURE

1.1 LEARNING OBJECTIVES

After going through this unit, students will be able to :

- state the evolution, growth and participation of public sector in Indian Economy;
- know the importance and contribution of joint sector in Indian Economy;
- discuss the role of private sector in Indian Economy;
- explain the significance of cooperative societies and small scale enterprises in the economy of India.

1.2 INTRODUCTION

The different sectoral trends of Indian economy has been encouraging for the investors. The astronomical rise of the Indian industry across all verticals have facilitated the growth of Indian economy. The main contributors for the overall rise of the different sectoral trends of Indian economy has been the manufacturing and service industry. Today, India along with china is regarded as the manufacturing hub of the world. In the service sector India still holds dominating position in the world market.

Some key facts of the sectoral trends of Indian economy are discussed as below -

- India's economy grew at 9.3% in quarter April-June and it was driven by manufacturing, construction and services sector and agriculture sector.
- GDP factor for the first quarter of 2007-08 was at Rs 7,23,132 crore, registering a growth rate of 9.3% over the corresponding quarter of previous year.
- Manufacturing registered 11.9% growth.
- The passenger vehicles sector grew by 11.61% during April-May 2007.
- Electricity, gas & water supply performed well and recorded an impressive growth rate of 8.3%.
- Construction growth rate rose to 10.7%.
- Trade, hotels, transport and communication registered a growth rate of 12%.
- Financing, insurance, real estate and business services recorded an impressive growth rate of at 11% during the 1st quarter of this fiscal.
- Community, social and personal services maintained a decent growth rate of 7.6%.
- The growth rate of agriculture, forestry & fishing' and 'mining & quarrying' are estimated at 3.8 per cent, and 3.2 per cent, respectively during the 1st quarter of 2007-2008.
- Exports grew by 18.11% during the 1st quarter of 2007-2008 and the imports shoot up by 34.30% during the same period.
- India's FOREX reserves (excluding Gold and SDRs) stood at $219.75 billion at the end of July ' 07.
- The food sector is estimated to be of US$ 200 billion and it is expected to grow to $310 billion by 2015.
- Stocks of food-grains grew by 13.1% to 17.73 million tonnes.
- The annual inflation rate was 4.45% for the week ended July 28, 2007.
- India's Balance of Payments is expected to remain comfortable.
- Merchandise Exports recorded strong growth

According to reports, the productivity trends of different sectors of Indian economy and its subsequent growth is estimated to be around 8% and above until 2020. Further, at this rate, the Indian economy will become the second largest economy in the world after China. Further, the World Bank has ranked India as one of the top economic reformers worldwide. It simplified business registration, cross-border trade, and payment of taxes, eased access to credit and strengthen investor's interest. The sectoral trends of Indian economy indicates robust growth of Indian industries especially manufacturing, construction, and service industry.

NOTES

1.3 EVOLUTION OF PUBLIC SECTOR

Prior to Independence, there were few 'Public Sector' Enterprises in the country. These included the Railways, the Posts and Telegraphs, the Port Trusts, the Ordinance Factories, All India Radio, few enterprises like the Government Salt Factories, Quinine Factories, etc. which were departmentally managed.

Independent India adopted planned economic development policies in a democratic, federal polity. The country was facing problems like inequalities in income and low levels of employment, regional imbalances in economic development and lack of trained manpower. India at that time was predominantly an agrarian economy with a weak industrial base, low level of savings, inadequate investments and infrastructure facilities. In view of this type of socio-economic set up, our visionary leaders drew up a roadmap for the development of Public Sector as an instrument for self-reliant economic growth. This guiding factor led to the passage of Industrial Policy Resolution of 1948 and followed by Industrial Policy Resolution of 1956. The 1948 Resolution envisaged development of core sectors through the public enterprises. Public Sector would correct the regional imbalances and create employment. Industrial Policy Resolution of 1948 laid emphasis on the expansion of production, both agricultural and industrial; and in particular on the production of capital equipment and goods satisfying the basic needs of the people, and of commodities the export of which would increase earnings of foreign exchange.

In early years of independence, capital was scarce and the base of entrepreneurship was also not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State which was directly responsible for industrial development. Consequently the planning process (5 year Plans) was initiated taking into account the needs of the country. The new strategies for the public sector were later outlined in the policy statements in the years 1973, 1977, 1980 and 1991. The year 1991 can be termed as the watershed year, heralding liberalisation of the Indian economy.

The public sector provided the required thrust to the economy and developed and nurtured the human resources, the vital ingredient for success of any enterprise; public or private.

1.4 GLOBAL TREND AND PERFORMANCE ANALYSIS OF PUBLIC SECTOR

The Public Sector emerged as the driver of economic growth consequent to the industrial revolution in Europe. With the advent of globalization, the public sector faced new challenges in the developed economies. No longer the public sector had the privilege of operating in a sellers market and had to face competition both from domestic and international competitors. Further, in the second half of the 20th century in the developed economies, the political opinion started swinging towards the views that the intervention as well as investment by Government in commercial activities should be reduced to the extent possible.

Many eminent economists argued that Government must not venture into those areas, where the private sector could undertake job efficiently. Lot of emphasis was laid on market driven economies, rather than State controlled and administered economies. The collapse of socialist economy of the Soviet block convinced the policy planners, around the world, that role of the State should be that of a facilitator and regulator rather than the producer and manager. It may be worth mentioning that, in various countries, the turn towards liberalism including deregulation and decontrol also led to discontent amongst some sections of population as its benefit did not flow down to the weaker and disadvantaged sections of society.

Today, both Public Sector & Private Sector have become an integral part of the economy. There may not be much difference in working of these sectors in advanced countries, but in developing countries, the performance of Public Sector has considerable scope for improvement. It is also observed that Pay packages are almost similar in both sectors in developed countries, but large differences exist in remuneration in the two sectors in developing countries, like ours.

Economic Scenario and Role of Public Sector in India – General Perspective

Government of India, as part of its national agenda to promote growth, increase in efficiency and international competitiveness, has been continuously framing policies for industrial growth, fiscal, trade and foreign investment to achieve overall socio-economic development of the country. As a result of exceptionally severe balance of payments and fiscal crisis in the year 1991, the government decided to shift to a liberalized economy with greater reliance upon market forces, a larger role for the private sector including foreign direct investment.

The Government realized that a strong and growth oriented nation could be built if India grows as part of the world economy and not in isolation. Thus, liberalising and deregulatory steps were initiated from the year 1991 onwards, which aimed at supporting growth and integration with the global economy. Since then, the thrust of New Economic Policy has been on progressive reforms such as reduction in the scope of industrial licensing, reforms in the Monopolies and Restrictive Trade Practices (MRTP) Act, reduction of areas reserved exclusively for public sector, disinvestment of equity of selected public sector enterprises (PSEs), enhancing limits of foreign equity participation in domestic industrial undertakings, liberalization of trade and exchange rate policies, rationalization and reduction of customs and excise duties and personal and corporate income taxes, promoting FDI, investments from NRIs (Non-Resident Indians), extension of the scope of CENVAT, implementing the VAT regime in States, taking steps to switch over to goods & services tax system w.e.f. 01.04.2010, e-governance and simplification of various procedures, rules and regulations etc.

Since the setting up of World Trade Organization (WTO) in the year 1995, as an apex body at the international level, to which India is a signatory, the world trade has definitely grown thereby giving indications that international trade reforms do play an important role in boosting economic development of various countries.

Industrial policy has seen a sea change with most Central Government industrial controls being liquidated. The Central Public Sector Enterprises (CPSEs) were classified into 'strategic' and 'non-strategic'. Strategic CPSEs were identified in the areas of *(a)* Arms & Ammunition and the allied items of defence equipments, Defence air-crafts and warships; *(b)* Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries); and *(c)* Railway transport. All other CPSEs were considered as non-strategic. Further, Industrial licensing by the Central Government has been almost abolished except for a few hazardous and environmentally sensitive industries.

The main elements of the present Government policy towards Public Sector enterprises as contained in the National Common Minimum Programme (NCMP) are reproduced below :

(i) To devolve full managerial and commercial autonomy to successful, profit making companies operating in a competitive environment,

(ii) Generally , profit-making companies will not be privatized,

(iii) Every effort will be made to modernize and restructure sick public sector companies and revive sick industry,

(iv) Chronically loss making companies will either be sold off, or closed, after all workers have got their legitimate dues and compensation,

(v) Private industry will be inducted to turn-around companies that have potential for revival,

(vi) Privatization revenues will be used for designated social sector schemes,

(vii) Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

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The Government has made a clear commitment to empowering the CPSEs and their managements. It was recognised that public enterprises could not compete effectively with private entrepreneurs without freedom to function and operate commercially.

Thus, the concept of Navratna and Mini-Ratna was introduced with greater delegated authority, both financial and managerial. Government has realized that 'Navratnas', 'Mini-ratnas' and other CPSEs are required to grow and deliver on the promises they have made to their stakeholders. Other reforms have also been announced, such as professionalisation of the Boards of Directors of public sector enterprises and evaluation of performance of CPSEs through Memorandum of Understanding (MOU).

Performance Status

Performance Status: Over the years, operations of CPSEs have extended to a wide range of activities in the manufacturing, engineering, steel, heavy machinery, machine tools, fertilizers, drugs, textiles, pharmaceuticals, petro-chemicals, extraction and refining of crude oil and services such as telecommunication, trading, tourism, warehousing, etc. and a range of consultancy services.

In 2006-07, there were 247 Central Public Sector Enterprises in India, as compared to 236 in 1997-98.

The following observations are made regarding the performance of CPSEs during the last 10 years :

a. The capital employed has increased from Rs. 2,49,855 Crores in 1997-98 to Rs.6,65,124 Crores in 2006-07 recording a growth of 266%.

b. Number of loss incurring CPSEs, it has come down from 100 in 1997-98 to 59 in 2006-07.

c. Turnover increased to Rs.9,64,410 Crores in 2006-07, from Rs. 2,76,002 Crores in 1997-98 recording a net worth growth of 349% increased from Rs. 1,34,443 Crores to Rs.4,52,995 Crores in 2006-07 recording a growth of 337%.

d. The turnover is equal to Rs.9,64,410 Crores in 2006-07, which is an increase of 349% in comparison to 1997-98 (Rs. 2,76,002 Crores). As regards Net worth, it has increased by 337% in 2006-07 in comparison to 1997-98 (Rs. 1,34,443 Crores), and is presently at Rs.4,52,995 Crores.

e. Net profit has increased by 599% in 2006-07 in comparison to 1997-98 (Rs. 13582 Crores), and is currently to the tune of Rs. 81550 Crores.

f. The combined Dividend and Dividend Tax has increased by 772% in 2006-07 in comparison to 1997-98 (Rs. 4063 Crore), and is equal to Rs. 30910 Crores.

Investment pattern: "Investment" defined as aggregate of paid-up share capital, share application money pending allotment and long term loans in CPSEs has grown from Rs.29 crore in 5 enterprises as on 1.4.1951 to Rs.4,21,089 crore as on 31.3.2007. The growth of investment in CPSEs, including enterprises under construction, over the years is given in Table 1.1. In addition, the CPSEs have accumulated a large amount of Reserves and Surplus which stood at Rs. 416494 crores as on 31.3.2007.

Turnover and Sales: The Electricity Sector had the highest, 19.59 per cent growth, followed by the manufacturing companies with a 16.03 per cent growth and the service companies with a growth of 9.16 percent in 2006-07 (over 2005-06). Amongst the various cognate groups, the growth in turnover of Consumer Goods (88.81%), Tourist Services (54%), Agro Based Industries (42%), Transportation Equipment (30%), Heavy Engineering (29%), Contract and Construction Services (23%), Chemicals & Pharmaceuticals (21%), Financial Services (20%), Power Generation (20%), Steel (18%) and Petroleum (17%) have been significant.

However, the CPSEs under the cognate groups of textiles (-14.37%), Telecom services (-5.07%) and Coal & Lignite (-1.34%) have witnessed a negative growth in turnover during 2006-07 over 2005-06. Overall, there was a 15.18 per cent growth in the turnover of CPSEs during 2006-07 over 2005-06.

Profit and Loss: The Net profit / Loss of CPSEs in the financial year 2006-07 and the year 2005-06 is presented in Table 1.4. The Group-wise analysis of aggregate profit and loss shows that except for the cognate groups of 'Fertilizers', 'Chemicals & Pharmaceuticals', 'Medium and Light engineering', 'Agro-based Industries', 'Textiles', 'Consumer Goods' and 'Contract and Construction services' all the others showed profits during the year 2006-07. Companies under the cognate groups of 'Heavy Engineering' and 'Transport Equipment ' performed better than the rest, with a 117 per cent growth and 111 per cent growth in profit in 2006-07 over 2005-06 respectively in terms of absolute values. High profits were reported by companies under the cognate groups of Petroleum (Rs.33,442 crore), Telecommunications Services (Rs.14,126 crore), Power Generation (12,115 crore), Coal and Lignite (Rs.8,853 crore), Steel (Rs.7,612 crore), Minerals & Metals (Rs. 5246 crore), Financial Services (Rs.2,828), Transportation services (Rs.2,210 crore) and Heavy Engineering (Rs. 2,123 crore). Overall, the grand total of net profits of all the CPSEs put together was Rs. 81549 crore during 2006-07, which indicates 17.28% growth over 2005-06.

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Table 1.1 (Growth of investment in CPSEs)

Particulars	Total investment (Rs. in crore)	Enterprises (Numbers)
On the eve of the 1st Five Year Plan (1.4.1951)	29	5
On the eve of the 2nd Five Year Plan (1.4.1956)	81	21
On the eve of the 3rd Five Year Plan (1.4.1961)	948	47
At the end of 3rd Five Year Plan (31.3.1966)	2410	73
On the eve of the 4th Five Year Plan (1.4.1969)	3897	84
On the eve of the 5th Five Year Plan (1.4.1974)	6237	122
At the end of 5th Five Year Plan (31.3.1979)	15534	169
On the eve of the 6th Five Year Plan (1.4.1980)	18150	179
On the eve of the 7th Five Year Plan (1.4.1985)	42673	215
At the end of 7th Five Year Plan (31.3.1990)	99329	244
On the eve of the 8th Five Year Plan (1.4.1992)	135445	246
At the end of 8th Five Year Plan (31.3.1997)	213610	242
At the end of 9th Five Year Plan (31.3.2002)	324614	240
As on 31.3.2003	335647	240
As on 31.3.2004	349994	242
As on 31.3.2005	357939	237
As on 31.3.2006	403705	239
As on 31.3.2007	421089	247

1.5 DEVELOPMENTS IN RECENT YEARS – A CRITICAL OVERVIEW OF PUBLIC SECTOR

Independent India has exhibited more impressive price stability than most developing economies. The inflation rate was, on an average, in the single digit for almost all the years since Independence. On the growth rate, the annual GDP growth in the decade of 1950s was 3.6 percent, in the 1960s it was 4.0 percent, in 1980s it was 5.6 percent and in the 1990's (excluding the Gulf war crisis year 1991-92) it was 6.3 percent. In the new millennium, the growth rate accelerated to 6.9 percent; and during the period from 2003-04 to 2006-07 it has averaged 8.6 percent.

The changes in the social and economic developments that have taken place in the country since India became independent are quite substantial. The total outlay of the 1st five year plan (from 1951-56) was Rs.2069 crores, which has increased to Rs. 66632 crores for the 10th five year plan (2002-07). The population of India in the year 1951 was around 36 crores and has increased to 103 crores as per the 2001 census. The head count ratio of persons below poverty line has declined from the level of 54.9% in the year 1973-74 to 36% in 1993-94 (the latest year for which the NSS data was available). The decline in the urban poverty level from 48% to 36% is significant as it coincides with the period of rapid urbanization.

During the period since 1997, successive governments have carried forward the country's economic reforms in Industrial , Trade and Financial sectors. The approach of the Government has been to gradually move towards comprehensive re-structuring of the economy to reap the benefits of the fast changing global business environment. Some of the major changes during the past decade from 1.1.97 to 31.12.06 that have significantly contributed to economic reform in the country are :

a. The Foreign Exchange Management Act (FEMA), 1999 replaced the Foreign Exchange Regulations Act (FERA), 1973 with the objective of 'facilitating external trade and payments' and 'promoting the orderly development and maintenance of foreign exchange market in India' including introduction of convertibility of rupees on current account.

b. Further, the enactment of Fiscal Responsibility and Budget Management (FRBM) Act in 2003 marked a significant reform initiative taken both by Central Government and some States in the context of fiscal responsibility.

c. The Insurance Regulatory and Development Authority Act, 1999 is a major milestone in liberalisation as it opens the way to private entry into the insurance business, which has been a Government monopoly.

d. New Telecom Policy was implemented in 1999 to facilitate India's vision of becoming an IT superpower and develop a world class telecom infrastructure in the country.

e. Replacement of MRTP Act, 1969 by Competition Act of 2002, in view of the policy shift from curbing monopolies to promoting competition. The Competition Act was enacted that marks a conscious departure from the previous Monopolies and Restrictive Trade Practices Act (MRTP). The Competition Law aims at doing away with the rigidly structured MRTP Act and is more flexible. Also, the regulatory authority under the Act *i.e.*, 'Competition Commission of India' is being set-up with the aim of centralizing under one umbrella all controls to eliminate the negative aspects of competition.

f. Electricity Act, 2003 was enacted to create competitive environment which will result in enhancing quality and reliability of service to consumer.

g. The Foreign Trade Policy was notified for the year 2004-2009 incorporating the Export and Import Policy for the year 2002-2007; several other initiatives have been taken for Export Promotion.

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h. The Foreign Direct Investment policy has been reviewed and liberalised to promote FDI in various sectors.

i. Tax reforms have taken place in a major way including rationalization of both direct and indirect tax laws. Customs tariffs have been lowered and Service tax net is being widened. The input tax credit for both excise duty and service has been streamlined. One of the important tax reforms has been introduction of State-level Value Added Tax to replace the Sales Tax. Introduction of Goods & Services Tax regime to be effective from 01.04.2010 is underway.

j. A number of Rules and Regulations have been issued by the Securities and Exchange Board of India (SEBI), to develop the capital market on healthy lines and protect the investors' interests in securities.

k. Special Economic Zones (SEZs) are being set up to enable hassle free manufacturing and trading for export and to free the industry from the plethora of rules and regulations governing imports and exports.

If one looks at the changes that have taken place in the country during postliberalization period when the New Economic Policy (NEP) of 1991 was announced, and more particularly from 1997 onwards, it becomes clear that India has opted for an open economy with greater reliance upon market forces. In a nutshell, global competition has ended Indian industry's monopoly, in local market and broken the shackles of 'License Permit Raj'.

New Opportunities

In the competitive industrial scenario, one of the key components to increase the bottom line in the globalized economy is to find out how an enterprise leverages capability at a global level for procurement, sourcing and delivering all its products and services across markets far more rapidly and takes advantage by cross leveraging between various markets. In this context, Mergers & Acquisitions (M&A) have gained importance during the past few years and a storm of mergers of huge values have been notched-up. In response to the growing business and to release productive energies and to promote creativity of Indian businesses, the regulators have also issued guidelines to facilitate smooth transactions as well as making business restructuring tax neutral. Business consolidation of market share, synergies of operations, reduction of time and money in entering the domestic & foreign market, reducing uncertainty of market share, to meet end-to-end solution needs, buying out competition, realization of stock market valuations, create value for shareholders, etc. are some of the reasons leading to spur in M&A activities within India as well as promote overseas acquisitions by Indian companies.

Integration of Indian economy with global markets has thrown up new opportunities and challenges. Some of the public sector enterprises with strategic vision are actively exploring new avenues and have increased their activities to go in for mergers, acquisitions, amalgamations, takeovers and for creating new joint ventures. The Navratna CPSEs, which enjoy greater autonomy to incur capital expenditure and enter into joint ventures in India and abroad should avail of these opportunities for rapid growth overseas. Acquisitions, JVs and green field projects in Petroleum Sector have already taken place and are under active consideration in Power, Coal and Mining Sectors.

Another important initiative towards re-structuring of pubic sector enterprises is 'Disinvestment' in select CPSEs. The Statement of Industrial Policy of 1991 stated that in the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises.

Some CPSEs have been such as Videsh Sanchar Nigam Ltd. (VSNL), Indian Petrochemicals Corporation Ltd. (IPCL), Maruti Udyog Limited (MUL), CMC Ltd., etc. have been privatized. In addition, there are CPSEs which have been acquired by other CPSEs by way of disinvestment and open bidding such as acquisition of IBP by Indian Oil Corporation Limited. There are also instances of acquisition of private firms by CPSEs as in the case of MRPL, which was a joint sector company and became a CPSE subsequent to acquisition of its majority shares by ONGC. There are also cases of domestic offerings, GDR listing, offloading of some equity shares in the market or to another organization, and forming joint-ventures, by CPSEs.

Labour Reforms

The first National Labour Commission, which had submitted its report in 1969, had promised a lot in the direction of social security, social welfare, wages, social insurance, industrial relations, industrial adjudication, collective bargaining, etc. In sequel to the recommendations made in the report of the first National Commission on Labour, a series of enactments were passed. After a gap of around 30 years, the Second National Labour Commission (NLC) was constituted to suggest rationalization of existing laws relating to labour in the organized sector, and to suggest an umbrella legislation for ensuring minimum level of protection to the workers in the unorganized sector. The report was submitted in the year 2002 to the Government. The need for setting up of Second NLC was felt due to vast changes occurring in the economy during the last three decades particularly in the post-liberalization period.

The National Common Minimum Programme (NCMP) of the present Government also states that labour laws other than Industrial Disputes Act, 1947 that create Inspector Raj will be re-examined and procedures harmonized and streamlined. More emphasis is being laid down to build effective labour laws, which reflect the need for a change in the mindset and the need for major reforms to address the issue of globalization.

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HR Perspective

Human Resources (HR) is one of the most complex and challenging fields of management, as it deals with the people dimension in business management. The biggest challenge now being faced by CEOs is HR as it plays a strategic role in the growth of an organization and thereby maximizing returns on investment. The HR management's role is required to be perceived as business strategic partner in the organization and it has to identify its key role with clarity in the context of organizational working as well as contributor to organization's strategy. Strategic HR practices help the organization in achieving long-term and short-term goals through optimum utilization of human resources. This involves the development of human resources objectives, which are in alignment with the enterprise objectives.

Thus, there is a new agenda in the role of HR and it has to come out from its traditional role of managing HR alone.

Pay-for-Performance philosophy has become an emerging HR trend, which increases organizational effectiveness by aligning employee effort to the organizational mission. The rating of accomplishment of individual, team or business groups and having distinct differences in performance incentives between good performers and non-performers send clear messages to the workforce that deliverance of results affects everyone in the organization.

The changes in industrial scenario have sent clear signals to the public sector to revisit their Human Resources (HR) Management practices and formulate HR strategies with focus on profitability on long-term basis. To achieve this, the thrust has to be on competitive HR policies & practices. HRM should now focus to build enterprises that change, learn, move and act faster than those of its competitors; and it is time to build competitive and not merely comfortable public sector enterprises. HRM of public sector enterprises is also required to keep pace with the changing legal and governmental regulations.

Human resources play an important role in development of businesses and is the main differentiator of excelling companies from other companies. In view of the growth in business, expanding market, high demand by consumers and change in technology, the biggest challenge being faced during the last decade by companies has been the need to meet their requirement for talented people. The rush for hiring of people is being seen in all the sectors such as IT & IT enabled services, infrastructure, engineering, banking, airline, hospitality, biotech, medical, retail, etc. The demand-supply equation for talented professionals is heavily skewed in favour of the former; and as a result both attraction and

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retention have emerged as major challenges for HR professionals. The problem is not only limited within the country but it has become a global phenomenon, and even the MNCs and global recruitment firms are hiring people from India to meet their demands. However, in recent times, one can also see that the trend is gradually reversing and now expatriates are being assigned to or hired for Indian operations, and even a lot of expatriate Indians working abroad are coming back because India has now a lot to offer. The future outlook confirms that global nomad employees, who move from country to country on varying assignments will become a common feature.

In public sector, HR practices and its management have a long way to go in order to achieve a professional and competitive HR standards. There is lot to be done by HR in terms of identifying & nurturing talent; creating a performance-driven culture; and bringing about changes in the mindsets of employees at all levels so that all of them aim at providing value to customers. Multiple roles are, thus, required to be played by HR professionals such as business strategic partners, the change agents, the consultants, the service-providers, etc.

The public sector enterprises have always been considered as 'model employers'. They used to recruit the brightest people in a very fair selection process and generally through open competition. The jobs in public sector always used to be the most preferred, by educated middle-class, and the talent was generally given its due respect in the public sector. However, the situation has changed in the last 10 years. Earlier there was little opportunity available for professionals to migrate from one organization to another, but during the last decade ample opportunities have been opened up for them to leave the organization. To add to this, the demand for talent is not confined to any particular sector of industry but the professionals are moving across sectors. As a result, public sector is under huge pressure in terms of attracting and retaining talent.

1.6 JOINT SECTOR ENTERPRISES IN INDIA

Adoption of planning in India led to a variety of initiatives by the state to promote and regulate industrialisation. For this, the overall framework was provided by the Five Year Plans. The essence of planning, while comprising of enlarged investments, is in achieving new pattern of investments. The pattern of resource allocation under a planned process, in contrast to market oriented economies, is governed by long term and a variety of socio-economic concerns and not by the market demand. The process of planning implies determination of a set of relative priorities and ensuring effective and timely implementation of plan targets. To translate the plan objectives the policies and programmes can broadly be categorised under three heads, namely, *(i)* Regulatory; *(ii)* Promotional; and *(iii)* Direct participation.

The regulatory systems are by their very nature restrictive, but the nature and degree of restrictions vary from one regulatory policy to another. Regulatory mechanisms provide a positive support to the desired activities by warding off the undesired. Reservation policies, similarly, seek to place a premium on some; in effect placing the non-qualifying at a relative disadvantage. The regulatory mechanisms, however, cannot generate investments on the desirable lines. It may be possible to restrict one type of economic activity but this does not follow that the activities of the desired types would start taking place on their own. There would, therefore, be a justification, along with regulations, for evolving of promotional and support mechanisms in the processes of planned socio-economic development. The wide network of financial, technical and developmental institutions whose primary task is to finance easy and cheap credit can rightly be categorised as promotional. The same holds true of fiscal and monetary concessions and agencies which provide risk capital to new ventures or render technical guidance and assistance to new entrepreneurs. The third category of state action for promotion of overall industrialisation in a plan framework would be in the activities undertaken by way of direct participation in economic activity by the state. This may be in the form of creating new economic infrastructure (transport, power, banking) or in the form of state enterprises. This is irrespective of the fact whether the enterprises are established as commercial establishments or not.

Of the three types of state interventions in the economy a good deal of work has been done to examine the functioning and efficacy of different regulatory mechanisms. The state regulatory mechanisms in India have come under frequent reviews for various reasons. The ones who are deprived can only be expected to react and plead for abolition of these systems. By their very character criticism of regulatory mechanisms should be a predictable phenomenon. The shortcomings of the system would be highlighted by those who fail to enjoy the preferences they expected from the regulatory policies and mechanisms. The Hazari Report, Industrial Licensing Policy Inquiry Committee (ILPIC) Report, Memoranda submitted to Government by the Federation of Indian Chambers of Commerce and Industry (FICCI) and a number of other individual studies on the functioning of industrial licensing system in India are an indicator of the scrutiny that the industrial regulatory mechanisms have received over the past three decades.

Similarly, the third type of state activity, that is, direct state intervention in economic activities, attracts considerable public attention and scrutiny that goes with public accountability. There are a multiple of institutions which continue to monitor and evaluate the functioning of activities undertaken directly by the state. The Bureau of Public Enterprises (BPE), Parliamentary Committee on Public Undertakings (COPU), and the Comptroller and Auditor General of India (C&AG),

are engaged in annual reviews on the working of Public Enterprises. There is, however, one category of policies and programmes which gets very little attention; the category is that of 'promotional' activities. While we have drawn a distinction between regulatory, promotional and direct intervention it is true that the distinctions are not always easily discernable in many concrete situations. For instance, the difference between direct participation and promotional policies can be a thin one. To illustrate, one would find it difficult to say if the fact of having a substantial share in the risk capital in a private sector company should be equated with direct participation with regulatory motive or undertaken as a promotional measure. It is well known that public sector financial institutions hold a substantial share in the risk capital of the Indian corporate sector in general and the large private corporations, in particular. The present situation has emerged out of three types of independent developments. One, due to nationalisation of insurance and large private commercial banks the public sector institutions have emerged as important share holders. Two, the public sector financial institutions had to take up the 'left overs' due to the underwriting activity of the public issues floated by the private sector companies. Also, the financial institutions had to acquire shares in the open market not only for earning higher returns but also to bail out some of the private enterprises and to ensure the stability of the stock market. Three, in a few cases loans provided to private sector companies were converted into equity as per the initial understanding. And four, public sector institutions acquired significant shares to provide security to new investments. The last category is a follow-up of the policies to promote joint enterprises where in public sector and a private entrepreneur set up a new enterprise and the risk capital is so shared as to have almost equal stake of both.

One does not need to dwell on the fact that geographic spread of industries in India is not a balanced or a logical one. There are States with rich resource endowment to support high level of manufacturing and other commercial activities; but due to historical and other reasons these States have not witnessed the emergence of new entrepreneurial class. The consequence is the absence of the process of industrialisation. In some cases public interest demands new investments but there are no private takers. There are also situations when it appears more logical to have public ownership but leave the actual operation of activities to some private managements. Such situations provide a rationale for 'joint sector', in addition to the cooperative, private and public sectors.

Joint Sector : The Concept

The concept of joint sector wherein Government and private entrepreneurs join hands to establish new enterprises is indeed an old one. It was quite normal for many of the erstwhile princely States (the state of Baroda, Travancore & Cochin and Hyderabad to name only a few) to share risk capital in large industrial projects. At the international level, however, positive contribution by the Japanese Government in promoting new commercial enterprises is only too well known.

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Even prior to India's political independence it was a widely shared view that the state in the independent India would have to play an active role in providing financial and other support to new and small entrepreneurs. The need for the establishment of Industrial Finance Corporation to promote and assist new enterprises was underlined by the National Planning Committee as also by the Economic Programmes Committee, both under the Chairmanship of Jawahar Lal Nehru — the first Prime Minister of India. The World Bank Team which visited India in 1954 recommended that India needed financial institutions which can promote as also provide initial risk capital to those who have no support of the already well established business families. While the Industrial Finance Corporation of India (IFCI) was established by the Government in 1948, the recommendations of the World Bank team led to establishment of the Industrial Credit and Investment Corporation of India (ICICI) in 1955. Later in 1964 Industrial Development Bank of India (IDBI) was established. In addition to these, India has three major public sector investment bodies, namely, *(a)* the Life Insurance Corporation of India (LIC); *(b)* the General Insurance Corporation of India (GIC); and (c) the Unit Trust of India (UTI). Besides these, there is Industrial Reconstruction Corporation of India (IRCI) which provides term finance to rehabilitate sick industrial units.

In the early 'fifties it was also realised that in view of the large size of the country the task of promoting new and small entrepreneurs could not be left to a few national level institutions. Thus, State Financial Corporations Act was enacted in 1952 to "assist smaller industries in different provinces". As a consequence of this legislation there are by now (*i.e.*, the year 1986) 18 State Financial Corporations (SFCs) and 25 State Industrial Development Corporations (SIDCs). The functions of these institutions are wide ranging in nature, covering different aspects of promotional and developmental activities in addition to advancing of term loans and financing of industrial projects. The State Financial Corporations (SFCs), were basically visualised to extend assistance to small and medium level industries. The SIDCs were expected to provide assistance by conducting techno-economic surveys, identification of projects, selection and training of entrepreneurs, development of backward areas, constructing industrial sheds, providing infrastructural facilities and directly participating in the share capital of new enterprises.

The State Industrial Development Corporations (SIDCs) and State Industrial Investment Corporations (SIICs) have come to occupy an important place in most of the States of India. There are, however, variations in the nature and size of their operations. The SIDCs, generally speaking, obtain Letters of Intent/ Industrial Licenses for setting up industries in the fields where there is scope for development and in particular where private risk capital is not easily forthcoming for establishment of new industries. After obtaining the necessary permission/ licence from the Government of India, the SIDCs identify private parties which could implement the industrial projects in the form of 'joint sector' enterprises (JSEs).

The Joint Sector Enterprises in India

The main thrust to the joint sector came during the post-1970 period. Prior to India's independence a number of Joint Enterprises were established by a few erstwhile Princely States. Air India International provides another notable example. The company was established by the Tatas in 1948. The Government of India provided 49 per cent share in its equity. The Government subsequently acquired an additional 2 per cent equity from the Tata Sons Ltd to convert it into a government company. In spite of the government holding 51 per cent of the equity the Air India continued to be under the management of the Tatas until it was fully taken over by the Government of India in 1953. There were twelve other undertakings in 1966-67, in which the Central Government had a substantial stake in equity capital without having direct managerial control. In a few cases equity participation by foreign enterprises in the public sector enterprises was also allowed. Madras Fertilizers Ltd. for example, was established as a joint enterprise in participation with Amoco Inc. (USA) and National Iranian Oil Co.(Iran). The same foreign companies were partners in Madras Refineries Ltd too. Cochin Refineries Ltd. was established with the participation of the Phillips Petroleum Co. (USA) and Duncan Brothers Ltd.; Lubrizol India Ltd.; with the Lubrizol Corporation (USA); and Triveni Structurals Ltd., with Voest Alpine (Austria). Maruti Udyog Ltd., is one of the latest cases where a foreign private corporation has been invited to join hands with the Government. A feature of all the above cases appears to be that public sector holdings are of majority nature and these are managed by Government nominated boards.

The Industrial Policy Resolution (IPR) of 1956 had classified industries into three main categories, depending on the role that the state was to play in each industry;

1. The industries, the future development of which will be the exclusive responsibility of the state are referred to as Schedule-A industries.
2. The industries which will be progressively state-owned and in which the state will generally take the initiative in establishing new undertakings and wherein private enterprise will be expected to supplement the efforts of the state in developing these industries are specified in Schedule - B.

3. The non-scheduled Industries are left to the initiative and enterprise of the private sector.

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The IPR, 1956 envisaged that the state would help the private sector in fulfilling the role assigned to it within the planning framework and the industrial policy in force from time to time. In doing so, the state will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital.

In September 1960, the Government of Maharashtra appointed a Consultative Committee on the Third Five Year Plan, which set up a Study Group on "Joint Sector Enterprises for Industrial Development" under the Chairmanship of Shri R.G. Saraiya. The Committee, in its report submitted in May 1961 expressed the opinion that :

> There can be no doubt that there exists considerable scope and justification in equal measure to establish industrial undertakings in the "Joint Sector". The Industrial Policy Resolution, 1956, has reserved certain types of industries exclusively for establishment by the Government and certain others have been listed where both Government and private enterprise can operate. Another important purpose of the Joint Sector scheme ought in our view to be the need to attract entrepreneurs to the relatively backward areas of the State in the matter of industrial development. Many of these have valuable resources but risk capital is not easily attracted to them because of the many other uncertain factors of industry in the minds of the entrepreneurs. State partnership would help considerably in removing such doubts in cases where the scheme is otherwise economic and proven.

Thus, the concept of joint sector as visualised by the Saraiya Committee was in the form of an industrial organisation that would promote industrial development in the State (Maharashtra in this case).

The development of the joint sector in its present form, can also be associated with the recommendations of the Industrial Licensing Policy Inquiry Committee (ILPIC), 1969. It was based on the consideration that since a large proportion of the cost of the new projects was financed by the public financial institutions directly or indirectly, the financial institutions should be allowed to share the profits and capital appreciation in the private sector companies. According to the Committee :

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> When public sector financial assistance on any significant scale is provided for the private sector ..., project should (also) necessarily be treated as belonging to 'joint sector' with proper representation for the state in its management.

The Committee favoured conversion of loans given to large projects into equity. The joint sector form was also expected to "ensure that the management of industry is conducted according to the overall policies laid down by government and that public interest and not merely private profit would guide the operations of large industrial undertakings in the private sector". The Committee saw a way of curbing the concentration of economic power with the help of this approach. In their view joint sector, as formulated along the lines suggested, would be "an important instrument for the attainment of this objective and it is likely to be more effective than licensing."

The ILPIC's recommendations covered many other aspects of industrial policy. Following these recommendations, the Government issued a policy statement in February 1970. It was announced that the "joint sector" concept as suggested in the ILPIC Report was "accepted in principle". It was also stated that this concept would be applied in "appropriate cases" of major projects taken up by the private enterprise groups in the core and heavy investment sectors. The reactions to this decision were of varied nature. In particular, the Indian Big Business became quite apprehensive of this move. They feared that joint sector could amount to "back door nationalisation". FICCI and other business associations expressed their concern over the acceptance of the ILPIC recommendations.

The views of the private industry seem to have been reflected in the Memorandum submitted by J.R.D. Tata to the Government of India on May 17, 1972. Tata suggested that a Joint Sector enterprise should be intended to be a form of partnership between the private sector and Government in which government's participation will not be less than 26 per cent and the day-to-day management will normally be in the hands of the private sector partner and control and supervision will be exercised by board of directors on which Government is adequately represented. Regarding the Central and State participation, the Memorandum suggested that the Central Government should involve itself in a joint sector company only when the project required very large funds and leave the smaller ones to the State Government. In case where a majority equity was not considered necessary, the Tata Memorandum suggested :

"the ownership of capital should be distributed as 26 per cent by the government, 25 per cent by the private company and the balance by the general public."

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According to J.R.D. Tata, the management of a joint sector enterprise should remain in the hands of private sector partner and the joint sector company should not be burdened with cumbersome and time consuming procedures enforced in the public sector enterprises. Further he opined that there was a need to examine if "some of the well run public enterprises can be brought under the Joint Sector". This was expected to release public funds for other priority projects. Thus in his scheme of things, the joint sector was to play only a promotional role in contrast to the objectives and the philosophy of the ILPIC's recommendations.

In February 1973 the Government of India clarified its stand on the concept of 'joint sector'. It was explained that :

> In appropriate cases, the Central and State governments have taken equity participation either directly or through their corporations with private parties .... This type of Joint sector units is a device which may be resorted to in specific cases having regard to the production targets of the Plan. Each proposal for establishing a joint Sector unit of this nature will have to be judged and decided on its merits in the light of government's social and economic objectives. The joint sector will also be a promotional instrument, as for instance, in cases where state governments go into partnership with new and medium entrepreneurs in order to guide them in developing a private Industry.

The Government was expected to ensure an effective role for itself in order to guide the "policies, management and operations".

To operationalise this policy decision the Government issued guidelines on February 8, 1973. The instructions issued were as follows :

1. The State Industrial Development Corporations (SIDCs) hold a minimum of 26 per cent in the equity capital of the companies promoted by them;
2. No private partner holds equity capital more than the SIDCs except with the prior approval of the Central Government; and
3. No Large Industrial House (LIH) or Foreign majority company can have any holding at all in the projects promoted by SIDCs except with the prior permission of the Central Government.

This was concurred by the IDBI and in all joint sector projects government or its nominees were to hold more than 25 per cent in the equity capital.

In practice, a variety of joint sector enterprises have come into being. They may be described as :

(a) An enterprise established by two or more partners; one of them being a state government or state public enterprise.

(b) An enterprise established by the central government or a central public undertaking with equity participation of the private sector.

(c) An enterprise which is already in existence as a public enterprise or subsidiary of a public enterprise transformed into a joint sector enterprise through the disinvestment of a part of the shareholding of the government to private companies or general public singly or collectively.

JOINT SECTOR : AN ANALYSIS

To begin with, for undertaking any study of the working of the scheme one needs to identify joint sector enterprises established by different State Governments. Since the implementation of the joint sector has been entrusted to the States there is no one central agency to monitor the progress of the scheme. As the State level promotional organisations are also participating in non-joint sector ventures and taking up varying levels of equity, identification of joint sector companies becomes a difficult task. The task becomes more difficult since a number of other corporations (besides SIDCs and SIICs) like electronics development corporations at the State level have also started promoting industrial projects in the joint sector. Keeping track of conversion of existing companies (belonging both to the private as well as state level public sector) is also a formidable task. This might probably explain the lack of many serious empirical studies on the functioning of the joint sector.

We shall, in the following, make an attempt to construct a profile of the joint sector companies, draw broad conclusions and raise issues for further debate. In our discussion we shall keep in mind the general objectives of the joint sector scheme which are reflected in various official announcements. These can broadly be stated as follows :

1. **Social control over Industries:** Participation in the ownership and management of enterprises jointly with private entrepreneurs gives the state an effective instrument of controlling monopolies, concentration of economic power and business malpractices; and
2. **Development of Backward areas:** Due to the active role assigned to the state, joint sector enterprises can be made to be located in relatively industrially backward areas which would help in achieving balanced regional development. This was necessary because many of the backward areas possess rich natural resources but risk capital was not easily forthcoming.

3. **Resource Mobilization:** State participation to the extent of 25 per cent or more in equity capital in an enterprise would lead to the mobilization of 70-75 per cent of the resources by the private promoters and general public.

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As discussed above, an enterprise is called a joint sector enterprise if the SIDCs or Government hold 26 percent equity or more, private promoter 25 per cent and the balance by the general public. When the degree of equity participation by the SIDCs varies between 10 to 15 per cent of the equity capital and balance is held by private promoters and the general public, the project is termed as assisted sector venture. In the present study, we are concerned with joint sector enterprises only.

The sources of information for the compilation of joint sector enterprises are mainly the Annual Reports of SIDCs, Directories brought out by SIDCs, the Bombay Stock Exchange Official Directory, Company Prospectuses, and Press Clippings of the Corporate Studies Group. Individual SIDCs and other state level public sector enterprises were also approached directly to provide list of joint sector companies promoted by them.

It was decided to take all the cases where the projects were designated as joint sector companies by their respective promoters. For the purpose of the present study, we have excluded the ones where there is no identifiable private promoter. In all we have identified 485 cases of joint sector enterprises.

Table - 1.2

Showing Growth of Joint Sector Companies in India Since 1970

S.No.	*Year of Incorporation*	*Number of Companies*
	(1)	(2)
1	before 1970	12
2	1970	6
3	1971	7
4	1972	12
5	1973	25
6	1974	35
7	1975	29
8	1976	26
9	1977	17
10	1978	26
11	1979	31
12	1980	35
13	1981	48

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14	1982	33
15	1983	31
16	1984	33
17	1985	31
18	1986	48
	Total	**485**

Source: Institute for Studies in Industrial Development.

Table - 1.2 shows the distribution of the 485 companies according to their respective year of incorporation. Understandably more than five per cent of the JSEs were established during the pre - 1972 period. Between 1972-74, 82 JSEs were established which accounted for nearly 17 per cent of the total JSEs. Though the Government announced its policy regarding joint sector in 1973, the same trend continued upto 1979. The post-1979 period witnessed a phenomenal growth in the number of JSEs promoted. This becomes clear from the fact that more than half of the JSEs (259) were incorporated during 1980-86. Though there has been a general directive that SIDCs should have 26 per cent share only, in practice one finds that a number of other public financial institutions also hold shares, resulting in a much higher combined holding of public sector. Out of the total 485 joint sector enterprises identified, 481 have been established by the SIDC's or public enterprises in collaboration with private sector.

Government and cooperatives together promoted four joint ventures. Out of 485 JSEs, 44 were brought under the joint sector because of the decision of the promoting SIDCs to dis-invest and transfer the respective public sector enterprises to private management.

Table - 1.3 shows the state-wise distribution of joint sector enterprises. Andhra Pradesh tops the list with 90 companies, followed by Tamil Nadu with 54, Gujarat and Punjab, 42 each; Rajasthan, 37; West Bengal, 35; Maharashtra, 16; and Karnataka with 25. Bihar, Madhya Pradesh, Haryana and Assam have only a few JSEs. Thus one finds that even relatively better developed states were also active in the promotion of JSEs.

Table - 1.3

Showing Statewise Number of Joint Sector Companies

S.No.	State (1)	No. of Companies (2)
1.	Andhra Pradesh	90
2.	Tamil Nadu	54
3.	Gujarat	42
4.	Punjab	42

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5.	Rajasthan	37
6.	West Bengal	35
7.	Orissa	33
8.	Uttar Pradesh	32
9.	Kerala	26
10.	Karnataka	25
11.	Bihar	18
12.	Maharashtra	16
13.	Madhya Pradesh	13
14.	Jammu & Kashmir	5
15.	Assam	3
16.	Sikkim	5
17.	Haryana	4
18.	Goa	3
19.	Himachal Pradesh	2
	Total	**485**

So far we have discussed about 485 JSEs which could be identified from various official sources. Companies claiming on their own to have been set up in the joint sector have also been included. However, complete details on the project cost and such other information could not be obtained for most of them. This is mainly because some of these projects did not go for public issues or are not listed on the stock exchanges or are at a very preliminary stage of implementation. But of the 485 JSEs, only 162 companies appear to have gone to the public with capital issue. Most of the remaining are at various stages of implementation. While every effort has been made to get as much information as possible for a number companies, lack of detailed data made us to restrict further analysis to only those companies which have gone to the public.

The definition of joint sector means joint partnership between the state and private promoter. Though general public at large hold majority of shares in the joint sector they do not control the affairs of the company. The chairman of the company is a nominee of the Government and the Managing Director is a representative of the private promoter. Since the day to day management of the company rests in the hands of the Managing Director who happens to be the private promoter or his representative, it is interesting to know the background of the private promoters. Out of 162 cases, 91 companies have been promoted by joint stock companies (*i.e;* mainly through intercorporate investments), 6 by partnership firms, by technocrats and 40 by individuals. That is more than 55 per cent of the joint sector companies which issued capital to the public have

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come up mainly through the intercorporate investments. It has already been established in earlier studies that the share of public sector financial institutions in the large private sector companies was quite high. This suggests that the effective share of the private promoter in the total risk capital could be considerably less than what it has been stipulated (25 per cent) in the cases of joint sector companies where the private promoter is a joint stock company. For instance, Automobile Corporation of Goa Ltd and Ipitata Sponge Iron Ltd. have been established with TELCO and TISCO of the Tata House as private promoters respectively. The share of public sector financial institutions was 44.84 per cent and 42.25 per cent in TELCO and TISCO respectively. Similarly, Bihar Caustic & Chemicals Ltd, Tamilnadu Flourine and Allied Chemicals Ltd are promoted with the participation of three Birla House companies namely, Gwalior Rayon and Silk Mfg co. Ltd, Hindustan Aluminium Corporation Ltd and Pilani Investment Corporation Ltd.

1.7 PRIVATE SECTOR

The private sector of Indian economy in the past few years have delineated significant development in terms of investment and in terms of its share in the gross domestic product. The key areas in private sector of Indian economy that have surpassed the public sector are transport, financial services etc.

Indian government has considered plans to take concrete steps to bring affect poverty alleviation through the creation of more job opportunities in the private sector of Indian economy, increase in the number of financial institutions in the private sector, to provide loans for purchase of houses, equipments, education, and for infrastructural development also. The private sector of Indian economy is recently showing its inclination to serve the society through women empowerment programs, aiding the people affected by natural calamities, extending help to the street children and so on. The government of India is being assisted by a number of agencies to identify the areas that are blocking the entry of the private sector of Indian economy in the arena of infrastructural development, like regulatory policies, legal procedures etc. The most interesting fact about the private sector of India economy is that though the overall pace of its development is comparatively slower than the public sector, still the investment of private sector in the recent past, i.e. in the first quarter of 1990 registered approximately 56 % which rose to nearly 71 % in the next quarter, accounting for an increase of 15 %. Certain steps taken by the Indian government are acting as the stepping stone of the private sector continued journey to success, include industrial delicensing, devaluation that was implemented previously.

The private sector of Indian economy is also adversely affected by the huge number of permits and enormous time required for the processing of documents to initiate a firm, however the central government has decided to abolish MRTP

Act and incorporate a Competition Commission of India to bring the public sector and the private sector at the same platform.

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The participation of the private sector of Indian economy is desired by the government of India for infrastructural development including specific sectors like power, development of highways and so on. As the contribution of public sector in these sectors have been arrested due to the shift of the attention of the Indian government to issues like population increase, industrial growth. The main reasons behind the low contribution of the private sector in infrastructural development activities are that :

- The small and medium scale companies in the private sector of Indian economy suffer from lack of finances to welcome the idea of extending their business to other states or diversify their product range.
- The private sector of Indian economy also suffer from the absence of appropriate regulatory structure, to guide the private sector and this speaks for its unorganized framework.
- The unorganized framework of the private sector is interrupting the proper management of this sector resulting in the slowdown of its development.

The growth rate of GDP originating in the public sector has always been higher than the growth rate of GDP originating in the private sector. Nevertheless, despite public sector registering higher growth rates than the private sector, the contribution of private sector to overall growth was always higher because of its significantly higher share in GDP.

Only during the first half of nineties (1990s) did both public and private sectors register growth rates of 4.9 percent each but in the second half 1990s, GDP growth in public sector again outpaced the private sector GDP growth. This was mainly a result of the increases in salaries and wages after the implementation of the Fifth Pay Commission's recommendations for Government employees.

In a brief period between 1993-94 and 1996-97 the private sector grew faster (7.6 percent per annum) than the public sector (5.7 percent per annum). – a result of the FDI liberalisation measures, industrial delicensing and external demand boost from devaluation. However, this has not been sustained and the private sector is still in the throes of a downturn since 1997-98.

As opposed to the poor growth in private sector GDP, there has been a clear shift in the composition of investment in the favour of private sector. The share of private sector in total investment shot up from 56 percent in first five years of 1990s to 71 percent by second half of 1990s. Sector analysis shows that the private sector was better placed in some areas (*e.g.*, financial services, transport, community and social services) to respond to reform initiatives and consequently displayed buoyancy in investment and growth.

Private Sector Participation and Poverty Impacts

In order to provide a context for the poverty impacts of private activities in the selected sectors for this assignment, it would be useful to assume that the policy framework poses no barriers to private entry (or expansion), and then assess what is the most likely form in which private providers will participate and its impacts on poverty, either directly or indirectly.

Direct impacts essentially relate to changes in the variables referred to above. Three types of direct impacts can be identified :

- Impact on livelihoods through expansion of employment or production opportunities.
- Impact on access to essential requirements.
- Impact on prices of essential requirements.

Indirect impacts are the impacts that sectoral changes have on the processes by which poverty is eliminated. Sustaining the momentum of a poverty reduction process requires the initiation of certain structural changes in both individuals and the communities in which they live and carry out their economic activities. Two channels of indirect impacts can be identified.

- Impact on the processes of human capital formation and preservation amongst poor people
- Impact on social capital, or the community's inherent capabilities to improve the economic condition of its members

Direct impacts are, by definition, manifested in relatively short periods of time. Whether the beneficial impacts of sectoral changes are sustainable over time depends on the strength of what may be classified as indirect impacts. The table below attempts to summarise the a priori perceptions about the impact of increased private participation on poverty.

Constraints to Private Sector Participation

The focus of post-reform policy in India has been to attract private investments in expanding India's infrastructure, which would catalyse the economic growth and poverty reduction. However, the results of these reforms measures have, at best been mixed. Existing imperfections in the financial sector has constrained the funding of projects in India. At the same time, the lack of or slow pace of reforms in key infrastructure areas means that most of these sectors continue to be relatively weak investment avenues.

Financial Sector Reforms

Aggregate deposits mobilized by the banking system of Rs. 10,970 billion as of March 2002 have grown at 15.5% since 1993, while Gross bank credit in the same period increased at a CAGR of around 18.6% to Rs. 6,836 billion. However,

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the increase in funds mobilised has not been accompanied by concurrent gains in the efficiency of deployment of funds.

While credit to industry remains the larger portion of credit portfolios, analysis shows that the credit risk profile across a range of industries has moved from a pre-reforms position, where the performance of most companies (a proxy for their credit-worthiness) was bunched around the median, to a post-reforms situation where the performances of companies within a particular industry show wide dispersion. Thus, companies are now either high credit risks, or low credit risks.

The increased risk profile, the high historic Non-Performing Asset (NPA) levels (In absolute terms, NPAs continue to grow and remain very high at around Rs. 500 billion), and the absence of adequate fresh lending opportunities have resulted in an increasing tendency on the part of banks to invest (over the mandated requirements) in relatively risk-free Government or Government-backed securities, popularly known as Statutory Liquidity Reserve (SLR) securities. To deal with the problem of NPAs, the reform strategy has been built around recovery (through the Ordinance on the Securitization and Reconstruction of Financial Assets in June 2002 and the setting of the Asset Reconstruction Company), recapitalisation, and change in ownership.

Capitalisation needs of the banking sector still remain high and a CRISIL and Standard & Poor study estimates that the additional capital requirement for scheduled commercial banks is of the order of US$ 11-13Bn. As of March 2002, the Government of India remains the majority shareholder in most of the PSBs, with its shareholding extending to 100% in several cases. Consequently, political considerations could impede the smooth implementation of the restructuring process at these banks. In future, the process of recapitalization and restructuring of public sector banks could be integrated if the process adopted for recapitalization would be through the strategic sale of Government holdings in these banks to equity investors, which will also address issues of management quality arising from direct Government ownership.

A series of capital market scams and co-operative bank failures has brought into sharp focus the need for improvement of regulation and reduction of regulatory confusion in the banking and capital markets sectors. Assistance for strengthening of regulation is an area which presents a potential opportunity for ADB.

A key impediment in the financing of infrastructure projects remains the inadequately developed secondary market for debt and the availability of long-term funding. Most Development Finance Institutions (DFIs) are in poor health (IFCI, IDBI) or are looking to convert (IDBI) or have already converted themselves to commercial banks (ICICI). Asset liability mismatches constrain lending for longer tenor (~15-20 years or more). Products addressing this need developed by institutions such as IDFC address some of these issues but demand for such products has been low with few actual projects seeking funds.

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Cumulative disbursements of loans by DFIs to microfinance institutions (MFIs) in 1998 was only Rs 78 m reaching less than 1% of the poor in India. Thus there is a tremendous scope for increasing reach of MFIs. Constraints to expansion of MFI roles are undercapitalisation resulting from their legal form as societies and trusts rather than corporate entities making it difficult to raise debt, limited regulation and poor asset quality resulting from inadequate credit risk management processes.

Public Administration and Governance

Poor governance in the public sector has had adverse impacts on India's private sector. Institutional strengthening interventions in key areas like Customs, Excise and Sales Tax administration would greatly help in improving the investment climate in India. Contracting bodies in infrastructure areas such as SEBs, Municipal bodies and others also have a poor governance record manifest in the form of poor record keeping, lack of integrity in accounting information delayed, employee indiscipline, etc, which severely restricts their ability to contract with the private sector.

In the private sector, despite generally good corporate governance standards, some of the leading causes of investor grievances are due to inadequate protection of minority shareholder rights and lack of provision of timely, accurate and comprehensive information to shareholders which might help them in taking better informed investment decisions.

Competition Policy

Excessive regulation of entry and exit with a higher requirement for permits (10 permits in India vis-à-vis 6 in China and a significantly larger no of days to start a firm (90 days vis-à-vis 30 days in China) relative to most countries is a key factor contributing to less competitive markets in India.

Competition regulation in the country is under evolution since the Government decided to replace the existing Monopolies and Restrictive Trade Practices Act (MRTP), 1969 and introduced The Competition Bill, 2001 in Parliament in August 2001. The bill seeks to replace the MRTP Commission with a Competition Commission of India. It would be difficult to gauge the impact of the constitution of this Commission till such time as the Bill is finalised and passed by Parliament.

Legal and Judicial reform

Legal delays and uncertainty on property rights, speed of the courts, inadequacy of bankruptcy and foreclosure laws, inflexibility of labour laws

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significantly increase risk perception and consequent costs to the private sector. Despite a superior Anglo-Saxon legal system, the legal system was found to be a positive factor only in 3% of the FDI cases as reported in a Planning commission study. A recent workd bank report cites that the biggest negative of the courts in India is the speed at which they operate. Poor bankruptcy laws and delay in bankruptcy proceedings are a part contributor to the high NPAs of the Financial system. Clearly, addressing these issues will add to the competitiveness of the private sector in India.

Infrastructure Development and Reforms

Historically, India has invested around 5.5% of its GDP in infrastructure development, which is highly inadequate. Of this, around 80% has been contributed by the public sector. In contrast, high growth Asian economies like Taiwan and South Korea consistently invested close to 10% of GDP in infrastructure.

By most standards, and in all sectors, delivery of infrastructure services has lagged behind demand, which has been fuelled by the tremendous increase in population, accelerating urbanisation and by the success of India's industrial growth. The delays, cost overruns, missed opportunities and lack of competitiveness due to infrastructure bottlenecks and shortages erode the productivity of the economy. It is thought that the GDP growth rate is affected to the extent of 150 to 200 percentage points due to these factors.

Different sectors have seen different levels of government activity seeking to increase private sector investment. Telecom, power and highways could be considered as relatively newer sectors open to private sector participation, whereas housing and health have traditionally been a sector in which the private sector has played a dominant role. The ports sector has seen more moderate levels of activity while in water and sewerage, PSP is still in its infancy stages. Factors constraining increased private sector participation or growth of private sector include –

Regulation: Regulatory bodies have established a fairly good track record in some of the sectors such power and telecom. However regulatory uncertainty remains a cause for disputes as is evident in the Telecom sector where interconnect, numbering and technology choices have been the subject of constant dispute or in the Port sector where there are apprehensions from different stakeholders that a lack of a uniform tariff regulation for ports, port terminals and minor ports, could distort the competitive environment. Need for strengthening of regulators can be considered a key constraint

In some sectors like water, road transport or healthcare, regulation is either non-existent or inadequate. Lack of regulation is often a cause for poor quality of service - for instance, in the road transport sector formation of State Road Transport Authorities could enable better service standards, similarly in the health sector, quality of health care delivery systems could improve with greater regulation.

Project Development and Implementation process: Understanding of project development processes is still in a nascent stage and often constrained by inexperience of implementing agencies. Insufficicnet funds for conducting baseline stuidies – SEBs are unable to provide credible data used by private sector bidders to bid for distribution projects, lack of a pre-feasibility study or other studies to establish viability are often a key impediment. A significant proportion of recent infrastructure projects have also been plagued either by delays in implementation ('fast-track' power projects) or by post implementation issues (Kakinada port). The poor project-implementation record compounds the problem of low-fund availability and increases the already high inherent risk of infrastructure projects. This highlights the need for sustained and enhanced support to improve the technical capabilities of the bodies that will procure private sector participation.

Legal and Policy Frameworks: As of now, in most infrastructure sectors, there are no serious legal impediments to PSP. Given more immediate and pressing problems in areas such as financial capability of public institutions and project structuring, legal hurdles are potential constraints but not limiting constraints, except for one key area – legislations relating to land reforms. The main problems are the lack of clarity in ownership of land and long delays in settling title disputes. Though steps have been initiated to correct these anomalies, it could take a long since the complexities of issues involved.

Capability and Performance of Public Sector Enterprises/Institutions: The ability of public agencies to deal with the private sector and procure their services depends on their own performance and financial health. Examples are roads (annuity projects), power (procurement of electricity by the SEB) and bulk water supply (bulk procurement of water by the ULB). Many projects in the power and water sector have stumbled primarily due to shortcomings on these aspects. Therefore PSU and ULB reforms are critical for PSP in some of the infrastructure sectors.

Private Sector Capability: baring a handful or so large corporate developers, most private developers have an extremely local focus, not venturing beyond more than one-two cities. For instance, in the road transport sector, the existing private players are highly unorganised and have small and localised operations, which makes it difficult for them to achieve economies of scale and scope. Also, the large number of unorganised players, without a sound regulatory framework, makes regulation of the sector a daunting task. In sectors such as road and water supply, the private sector is still in its infancy stages.

NOTES

1.8 CO-OPERATIVE SOCIETIES

Let us take one example. Suppose a poor villager has two cows and gets ten litres of milk. After consumption by his family everyday he finds a surplus of five liters of milk. What can he do with the surplus? He may want to sell the milk but may not find a customer in the village. Somebody may tell him to sell the milk in the nearby town or city. Again he finds it difficult, as he does not have money to go to the town to sell milk. What should he do? He is faced with a problem. Do you have any solution for him?

One day that poor villager met a learner of NIOS who had earlier read this lesson. The learner told him, you see, you are not the only person facing this problem. There are many others in your village and also in the nearby village who face a similar problem. Why don't you all sit together and find a solution to your common problem? In the morning you can collect the surplus milk at a common place and send somebody to the nearby town to sell it. Again in the evening, you can sit together and distribute the money according to your contribution of milk. Of course first you have to deduct all the expenses from the sale proceeds.

That villager agreed to what the learner said. He told everybody about this new idea and formed a group of milk producers in his village. By selling the milk in the nearby town they were all able to earn money. After that they did not face any problem of finding a market for the surplus milk.

This process continued for a long time. One day some body suggested that instead of selling only milk why not produce other milk products like ghee, butter, cheese, milk powder etc. and sell them in the market at a better price? All of them agreed and did the same. They produced quality milk products and found a very good market for their products not only in the nearby town but in the entire country.

Just think it over. A poor villager, who was not able to sell five litres of milk in his village, is now selling milk and milk products throughout the nation. He is now enjoying a good life. How did it happen? Who made it possible? This is the reward of a joint effort or co–operation.

The term co-operation is derived from the Latin word co-operari, where the word co means 'with' and operari means 'to work'. Thus, co-operation means working together. So those who want to work together with some common economic objective can form a society which is termed as "co-operative society". It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as mutual help. The main objective is to provide support to the members. Nobody joins a cooperative society to earn profit. People come forward as a group, pool their

NOTES

individual resources, utilise them in the best possible manner, and derive some common benefit out of it.

In the above example, all producers of milk of a village joined hands, collected the surplus milk at a common place and sold milk and milk products in the market. This was possible because of their joint effort. Individually it would not have been possible either to sell or produce any milk product in that village. They had formed a co-operative society for this purpose.

In a similar way, the consumers of a particular locality can join hands to provide goods of their daily need and thus, form a co-operative society. Now they can buy goods directly from the producers and sell those to members at a cheaper price. Why is the price cheaper? Because they buy goods directly from the producer and thereby the middlemen's profit is eliminated. Do you think it would have been possible on the part of a single consumer to buy goods directly from the producers? Of course, not.

In the same way people can form other types of co-operative societies as well. Let us know about them.

Types of Co-operative Societies

Although all types of cooperative societies work on the same principle, they differ with regard to the nature of activities they perform. Followings are different types of co-operative societies that exist in our country.

1. **Consumers' Co-operative Society:** These societies are formed to protect the interest of general consumers by making consumer goods available at a reasonable price. They buy goods directly from the producers or manufacturers and thereby eliminate the middlemen in the process of distribution. Kendriya Bhandar, Apna Bazar and Sahkari Bhandar are examples of consumers' co-operative society.
2. **Producers' Co-operative Society:** These societies are formed to protect the interest of small producers by making available items of their need for production like raw materials, tools and equipments, machinery, etc. Handloom societies like APPCO, Bayanika, Haryana Handloom, etc., are examples of producers' co-operative society.
3. **Co-operative Marketing Society:** These societies are formed by small producers and manufacturers who find it difficult to sell their products individually. The society collects the products from the individual members and takes the responsibility of selling those products in the market. Gujarat Co-operative Milk Marketing Federation that sells AMUL milk products is an example of marketing co-operative society.
4. **Co-operative Credit Society:** These societies are formed to provide financial support to the members. The society accepts deposits from

members and grants them loans at reasonable rates of interest in times of need. Village Service Co-operative Society and Urban Cooperative Banks are examples of co-operative credit society.

NOTES

5. **Co-operative Farming Society:** These societies are formed by small farmers to work jointly and thereby enjoy the benefits of large-scale farming. Lift-irrigation cooperative societies and pani-panchayats are some of the examples of co-operative farming society.
6. **Housing Co-operative Society:** These societies are formed to provide residential houses to members. They purchase land, develop it and construct houses or flats and allot the same to members. Some societies also provide loans at low rate of interest to members to construct their own houses. The Employees' Housing Societies and Metropolitan Housing Co-operative Society are examples of housing co-operative society.

Characteristics of Co-operative Society

A co-operative society is a special type of business organisation different from other forms of organsation you have learnt earlier. Let us discuss its characteristics.

i. **Open membership:** The membership of a Co-operative Society is open to all those who have a common interest. A minimum of ten members are required to form a cooperative society. The Co–operative societies Act does not specify the maximum number of members for any co-operative society. However, after the formation of the society, the member may specify the maximum number of members.

ii. **Voluntary Association:** Members join the co-operative society voluntarily, that is, by choice. A member can join the society as and when he likes, continue for as long as he likes, and leave the society at will.

iii. **State control:** To protect the interest of members, co-operative societies are placed under state control through registration. While getting registered, a society has to submit details about the members and the business it is to undertake. It has to maintain books of accounts, which are to be audited by government auditors.

iv. **Sources of Finance:** In a co-operative society capital is contributed by all the members.However, it can easily raise loans and secure grants from government after its registration.

v. **Democratic Management:** Co-operative societies are managed on democratic lines. The society is managed by a group known as "Board of Directors". The members of the board of directors are the elected representatives of the society. Each member has a single vote, irrespective of the number of shares held. For example, in a village credit society the small farmer having one share has equal voting right as that of a landlord having 20 shares.

NOTES

iv. **Service motive:** Co-operatives are not formed to maximise profit like other forms of business organisation. The main purpose of a Co-operative Society is to provide service to its members. For example, in a Consumer Co-operative Store, goods are sold to its members at a reasonable price by retaining a small margin of profit. It also provides better quality goods to its members and the general public.

v. **Separate Legal Entity:** A Co-operative Society is registered under the Co-operativeSocieties Act. After registration a society becomes a separate legal entity, with limited liability of its members. Death, insolvency or lunacy of a member does not affect the existence of a society. It can enter into agreements with others and can purchase or sell properties in its own name.

vi. **Distribution of Surplus:** Every co-operative society in addition to providing services to its members, also generates some profit while conducting business. Profits are not earned at the cost of its members. Profit generated is distributed to its members not on the basis of the shares held by the members (like the company form of business), but on the basis of members' participation in the business of the society. For example, in a consumer co-operative store only a small part of the profit is distributed to members as dividend on their shares; a major part of the profit is paid as purchase bonus to members on the basis of goods purchased by each member from the society.

vii. **Self-help through mutual cooperation:** Co-operative Societies thrive on the principle of mutual help. They are the organisations of financially weaker sections of society. Co-operative Societies convert the weakness of members into strength by adopting the principle of self-help through mutual co-operation. It is only by working jointly on the principle of "Each for all and all for each", the members can fight exploitation and secure a place in society.

Formation of a Co-operative Society

A Co-operative Society can be formed as per the provisions of the Co-operative Societies Act, 1912. At least ten persons having the capacity to enter into a contract with common economic objectives, like farming, weaving, consuming, etc. can form a Co-operative Society. A joint application along with the bye-laws of the society containing the details about the society and its members, has to be submitted to the Registrar of Co-operative Societies of the concerned state. After scrutiny of the appliation and the bye–laws, the registrar issues a Certificate of Registration.

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Requirements for Registration :

1. Application with the signature of all members
2. Bye-laws of the society containing :
   (a) Name, address and aims and objectives of the society;
   (b) Names, addresses and occupations of members;
   (c) Mode of admitting new members;
   (d) Share capital and its division.

ADVANTAGES OF CO-OPERATIVE SOCIETY

A Co-operative form of business organisation has the following advantages:

i. **Easy Formation:** Formation of a co-operative society is very easy compared to a joint stock company. Any ten adults can voluntarily form an association and get it registered with the Registrar of Co-operative Societies.

ii. **Open Membership:** Persons having common interest can form a co-operative society. Any competent person can become a member at any time he/she likes and can leave the society at will.

iii. **Democratic Control:** A co-operative society is controlled in a democratic manner. The members cast their vote to elect their representatives to form a committee that looks after the day-to-day administration. This committee is accountable to all the members of the society.

iv. **Limited Liability:** The liability of members of a co-operative society is limited to the extent of capital contributed by them. Unlike sole proprietors and partners the personal properties of members of the co-operative societies are free from any kind of risk because of business liabilities.

v. **Elimination of Middlemen's Profit:** Through co-operatives the members or consumers control their own supplies and thus, middlemen's profit is eliminated.

vi. **State Assistance:** Both Central and State governments provide all kinds of help to the societies. Such help may be provided in the form of capital contribution, loans at low rates of interest, exemption in tax, subsidies in repayment of loans, etc.

vii. **Stable Life:** A co-operative society has a fairly stable life and it continues to exist fora long period of time. Its existence is not affected by the death, insolvency, lunacy or resignation of any of its members.

LIMITATIONS OF CO–OPERATIVE SOCIETY

NOTES

Besides the above advantages, the co-operative form of business organisation also suffers from various limitations. Let us learn these limitations.

i. **Limited Capital:** The amount of capital that a cooperative society can raise from its member is very limited because the membership is generally confined to a particular section of the society. Again due to low rate of return the members do not invest more capital. Government's assistance is often inadequate for most of the co-operative societies.

ii. **Problems in Management:** Generally it is seen that co-operative societies do not function efficiently due to lack of managerial talent. The members or their elected representatives are not experienced enough to manage the society. Again, because of limited capital they are not able to get the benefits of professional management.

iii. **Lack of Motivation:** Every co-operative society is formed to render service to its members rather than to earn profit. This does not provide enough motivation to the members to put in their best effort and manage the society efficiently.

iv. **Lack of Co-operation:** The co-operative societies are formed with the idea of mutual co-operation. But it is often seen that there is a lot of friction between the members because of personality differences, ego clash, etc. The selfish attitude of members may sometimes bring an end to the society.

v. **Dependence on Government:** The inadequacy of capital and various other limitations make cooperative societies dependant on the government for support and patronage in terms of grants, loans subsidies, etc. Due to this, the government sometimes directly interferes in the management of the society and also audit their annual accounts.

Let us now sum up–

Advantages

- Easy formation
- Open membership
- Democratic Control
- Limited Liability
- Elimination of Middleman's Profit
- State Assistance
- Stable Life

Disadvantages

- Limited Capital

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- Problems in Management
- Lack of Motivation
- Lack of Cooperation
- Dependence on Government

SUITABILITY OF CO-OPERATIVE SOCIETIES

You have learnt that the main objective of co-operative form of business organisation is to provide service rather than to earn profit. The co-operative society is the only alternative to protect the weaker sections of the society and to promote the economic interest of the people. In certain situations when it is not possible to achieve the target by individual effort, collective effort in the form of a co-operative society is preferred.

Housing co-operatives, Marketing co-operatives, etc., are formed to achieve the common economic objectives of the members. Generally co-operative society is suitable for small and medium size business operation. However, large scale co-operative societies like IFFCO, KRIBHCO etc. are also found in India.

1.9 SMALL AND MEDIUM ENTERPRISES (SMEs) IN INDIA

Small scale industries have been defined in India in many way from time to time. According to latest definition a small scale industry is one having investment in plant and machinery up to Rs. 60 lakh. For ancillary unit (the units which supply parts and equipments to large scale industries) the limit of capital investment is Rs. 75 lakh. Tiny industry is or having investment in plant and machinery upto Rs. 2 lakh. It is important to mention here that capital investment for this purpose means the investment in plant and machinery and excludes the investment in land and building.

An important feature of Indian economy since independence is the rapid growth of small scale. Industrial policies of 1984, 1956, 1977 and 1994 of our country give special role to the small castor for creating additional employment with low capital investment. Small scale industries play an important role in the state economy. Their significance can be judges from the facts given in the following explanation :

The small scale industry contribute significant the total industries production and provide employment to large part of population in the state.

The SSI Sector in India is the second largest manpower employer in the country next only to the agriculture sector is stagnant and large industry sector is passing through 'zero employment growth', it is SSS, besides the service sector,where employment, output export are growing at substantial rates.

Moreover, SSS helps in industrialization of rural and backward areas and reduce regional imbalance. It can also facilitate effective mobilization of local resources and skill which might otherwise remain untapped.

The SSI sector has emerged over five decades as a highly vibrant and dynamic sector of the Indian economy. By the end of March 2000, the SSI sector accounts for 95 per cent of the industrial units contributing about 40 per cent of value addition in the manufacturing sector, nearly 80 per cent of manufacturing employment and about 35 per cent of exports (both direct and indirect). More than 32 lakh units (which include both registered and unregistered units) are spread all over the country producing over 7500 items and providing employment to more than 178 lakh persons.

The Government of India has helped the SSS through supportive policy measures since the adoption of planned economy model. The main item of policy support are reservation of a large number of items for SSS, excise exemption, credit under priority sector lending from banks and financial institutions, marketing support by reserving items of SSS products for Government purchases, providing infrastructure facilities like sheds, plots in industrial estates, technical support, training and entrepreneurship development, etc. However, it is to be noted that with the removal of quantitative restrictions on different products from April 2002, the policy of reservation of products for exclusive manufacture of SSS has eventually become redundant.

Due to removal of QRS, many of the SSI units, especially in the consumer goods sector, will find it difficult to survive unless cost and quality improves as more imported products will find easy access to the Indian market. Similarly, the WTO clause of greater transparency of Government purchases, when implemented, will abolish the reserved list of items for purchase from SSS by the Government along with 15 per cent price preference enjoyed by the SSS in Government purchase. Thus ultimately the SSS will have to compete with imported goods as well as domestic goods from large and medium scale sectors.

Under the circumstances, the Government should immediately take necessary steps to increase awareness of WTO provisions among 551 entrepreneurs, particularly to those located in backward areas, and assist them as an effective facilitator.

It is pertinent to note here that the 555 gets special attention and support all over the world including the developed countries. The developed countries have been constantly expanding the network of non-tariff barriers by raising issues like environmental concerns, labour standards, child labour etc. India too should push for bringing down tariff and non-tariff barriers in other countries for the promotion of its exports to the markets of developed countries.

State-Wise Distribution of Total SSI Units in India

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The small-scale industrial units are functioning in all the states in India. According to Third All India Census of Small Scale Industries, there are 10.52 millions units functioning in India. The total employment contribution of the sector is 24.93 million, with a per unit contribution of 2.37.

It is found that the state of Utter Pradesh tops the list with more than 17 lakh SSI units followed by Andhra Pradesh, Maharashtra, Madhya Pradesh and Tamil Nadu. Gujarat stands at 8^{th} position. Sikkim has the lowest number of Small Scale units (368 units.)

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for smallscale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for small-scale units for a long time, though this list of products is decreasing due to change in industrial policies and climate.

SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labour intensive mode of production; employment generation; nonconcentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. It was also coupled with the policy of de-concentration of industrial activities in few geographical centers.

It can be observed that by and large, SMEs in India met the expectations of the Government in this respect. SMEs developed in a manner, which made it possible for them to achieve the following objectives :

- High contribution to domestic production
- Significant export earnings
- Low investment requirements
- Operational flexibility
- Location wise mobility
- Low intensive imports
- Capacities to develop appropriate indigenous technology
- Import substitution

- Contribution towards defense production
- Technology – oriented industries
- Competitiveness in domestic and export markets

At the same time one has to understand the limitations of SMEs, which are:

- Low Capital base
- Concentration of functions in one / two persons
- Inadequate exposure to international environment
- Inability to face impact of WTO regime
- Inadequate contribution towards R & D
- Lack of professionalism

In spite of these limitations, the SMEs have made significant contribution towards technological development and exports.

SMEs have been established in almost all-major sectors in the Indian industry such as :

- Food Processing
- Agricultural Inputs
- Chemicals & Pharmaceuticals
- Engineering; Electricals; Electronics
- Electro-medical equipment
- Textiles and Garments
- Leather and leather goods
- Meat products
- Bio-engineering
- Sports goods
- Plastics products
- Computer Software, etc.

As a result of globalization and liberalization, coupled with WTO regime, Indian SMEs have been passing through a transitional period. With slowing down of economy in India and abroad, particularly USA and European Union and enhanced competition from China and a few low cost centers of production from abroad many units have been facing a tough time.

Those SMEs who have strong technological base, international business outlook, competitive spirit and willingness to restructure themselves shall withstand the present challenges and come out with shining colours to make their own contribution to the Indian economy.

1.10 SUMMARY

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- The Public Sector emerged as the driver of economic growth consequent to the industrial revolution in Europe. With the advent of globalization, the public sector faced new challenges in the developed economies.
- As a result of exceptionally severe balance of payments and fiscal crisis in the year 1991, the government decided to shift to a liberalized economy with greater reliance upon market forces, a larger role for the private sector including foreign direct investment.
- Adoption of planning in India led to a variety of initiatives by the state to promote and regulate industrialisation. For this, the overall framework was provided by the Five Year Plans. The essence of planning, while comprising of enlarged investments, is in achieving new pattern of investments. The pattern of resource allocation under a planned process, in contrast to market oriented economies, is governed by long term and a variety of socio-economic concerns and not by the market demand.
- The main thrust to the joint sector came during the post-1970 period. Prior to India's independence a number of Joint Enterprises were established by a few erstwhile Princely States. Air India International provides another notable example.
- The term co-operation is derived from the Latin word co-operari, where the word co means 'with' and operari means 'to work'. Thus, co-operation means working together. So those who want to work together with some common economic objective can form a society which is termed as "co-operative society".
- A small scale industry is one having investment in plant and machinery up to Rs. 60 lakh. For ancillary unit (the units which supply parts and equipments to large scale industries) the limit of capital investment is Rs. 75 lakh. Tiny industry is or having investment in plant and machinery upto Rs. 2 lakh.

1.11 REVIEW QUESTIONS

1. What is the importance of public sector in Indian Economy? Discuss.
2. Discuss the evolution of joint sector in India.
3. Explain the current scenario of private sector in India.
4. What do you mean by co-operative societies?
5. State the advantages of co-operative societies.
6. What are the limitations of co-operative societies?

7. Discuss the state-wise distribution of small scale enterprises in India.
8. How is a co-operative society formed?

1.12 FURTHER READINGS

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UNIT – II

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ECONOMIC GROWTH, DEVELOPMENT AND UNDERDEVELOPMENT

STRUCTURE

2.1 LEARNING OBJECTIVES

After going through this unit, students will be able to :

- state the fundamental concept of economic growth and development;
- know the indicators and characteristics of underdevelopment;
- discuss the factors of economic development;
- describe the strategies of growth.

2.2 INTRODUCTION

Economic development, achieved largely through productivity growth, is very important to both developed and developing nations. However, even though we know that higher productivity leads to improved economic outcomes (for example, higher income, more choices to the consumers, better quality products, etc.), there has been no consensus among researchers about either the desired path of development or the role of state in economic development. Concerning the path of development, Lall (2001) says that the appropriate strategy for any country depends not only on its objective economic situation but also on its government policies and national views regarding the appropriate role of the state.

Regarding the appropriate role of the state, it seems that for every argument in favour of a smaller government role one can find a counter argument in favour of a more active government role. The role of the state in economic development began to change dramatically with the advent of the Industrial Revolution. In the West, the resulting industrialization and economic development were based on the establishment of individual property rights that encouraged the growth of private capital. Competition and individual enterprise thrive in this environment because individuals pursue their self-interest of survival and wealth accumulation. The instinct to survive under competitive pressures yields innovation and productivity increases, which eventually lead to both increased profits for business and lower prices to consumers. However, the rise and spread of capitalism led a number of thinkers to examine the consequences of the market-based approach to development.

Socialists argued that capitalism (or private ownership of capital) can lead to greater inequalities of income and wealth, while developmental economists argued that private decisions may not always lead to socially desirable outcomes (particularly in the case of market imperfections). Indeed, many policymakers at the time saw market failures as quite common and therefore assumed that only appropriate government interventions could guide an economy to a path of sustained economic development.

In the early 20th century, the former Soviet Union attempted a bold experiment of improving individual well-being without sacrificing the objective of greater equality of income and wealth through total ownership of capital by the government. Initially, the Soviet Government was able to raise productivity through directed industrialization and, within a span of 25 years (by the end of World War II), emerged as a superpower. It was around this time that a substantial number of colonized nations were gaining their independence (for example, India, Pakistan and Burma). Unfortunately, during their time as colonies to the Western nations, these countries, for the most part, had been deprived of the industrialization that had engulfed those same Western nations. Based on the successful experience of the former Soviet Union, many economists and

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policymakers concluded that, particularly in a poor country, planning was essential for the efficient allocation of an economy's resources.

The governments in these newly independent nations assumed a significant role in economic development. They sought to quickly and substantially raise the standard of living through directed and controlled economic development. Apart from everything else, these developing countries invested heavily in education to promote literacy and to ensure an adequate supply of technical manpower to meet their growing needs. Further, these previously colonized nations did not want to subject their poor and weak economies to international economic fluctuations and thus sought to industrialize through import substituting industrialization, where imports were expected to be increasingly replaced by domestic production.

2.3 ECONOMIC GROWTH AND DEVELOPMENT

Economic development is the increase in the amount of people in a nation's population with sustained growth from a simple, low-income economy to a modern, high-income economy. Its scope includes the process and policies by which a nation improves the economic, political, and social well-being of its people.

Gonçalo L Fonsesca at the New School for Social Research defines economic development as "the analysis of the economic development of nations."

The University of Iowa's Center for International Finance and Development states that:

> "Economic development' or 'development' is a term that economists, politicians, and others have used frequently in the 20th century. The concept, however, has been in existence in the West for centuries. Modernization, Westernization, and especially Industrialization are other terms people have used when discussing economic development. Although no one is sure when the concept originated, most people agree that development is closely bound up with the evolution of capitalism and the demise of feudalism."

The study of economic development by social scientists encompasses theories of the causes of industrial-economic modernization, plus organizational and related aspects of enterprise development in modern societies. It embraces sociological research on business organization and enterprise development from a historical and comparative perspective; specific processes of the evolution (growth, modernization) of markets and management-employee relations; and culturally related cross-national similarities and differences in patterns of industrial organization in contemporary Western societies. On the subject of the nature and causes of the considerable variations that exist in levels of industrial-economic

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growth and performance internationally, it seeks answers to such questions as: "Why are levels of direct foreign investment and labour productivity significantly higher in some countries than in others?"

Mansell and Wehn state that development has been understood since the second World War to involve economic growth, increases in per capita income, and attainment of a standard of living equivalent to that of industrialized countries.

Economy Development can also be considered as a static theory that documents the state of economy at a certain time. According to Schumpeter (2003) the changes in this equilibrium state to document in economic theory can only be caused by intervening factors coming from the outside.

Economic Growth Versus Economic Development

Economic development refers to social and technological progress. It implies a change in the way goods and services are produced, not merely an increase in production achieved using the old methods of production on a wider scale. Economic growth implies only an increase in quantitative output; it may or may not involve development. Economic growth is often measured by rate of change of gross domestic product (eg., percent GDP increase per year.) Gross domestic product is the aggregate value-added by the economic activity within a country's borders.

Economic development typically involves improvements in a variety of indicators such as literacy rates, life expectancy, and poverty rates. GDP does not take into account other aspects such as leisure time, environmental quality, freedom, or social justice; alternative measures of economic wellbeing have been proposed (more).

A country's economic development is related to its human development, which encompasses, among other things, health and education.

Intensive Versus Extensive Growth

A closely related idea is the difference between extensive and intensive economic growth. Extensive growth is growth achieved by using more resources (land, labour and capital). Intensive growth is growth achieved by using a given amount of resources more efficiently (productively). Intensive growth requires development. personal safety and freedom from fear of physical harm, and the extent of participation in civil society.

Does Growth Create Development?

Dependency theorists argue that poor countries have sometimes experienced economic growth with little or no economic development; for instance, in cases where they have functioned mainly as resource-providers to wealthy industrialised countries. There is an opposing argument, however, that growth causes development because some of the increase in income gets spent on human development such as education and health.

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According to *Ranis et al. (2000)*, we view economic growth to human development as a two-way relationship. Moreover, Ranis suggested that the first chain consist of economic growth benefiting human development with GNP. Namely, GNP increases human development by expenditure from families, government and organizations such as NGOs. With the increase in economic growth, families and individuals will likely increase expenditures with the increased in incomes, which leads to increase in human development. Further, with the increased in expenditures, health, education tend to increases in the country and later will contribute to economic growth.

In addition to increasing private incomes, economic growth also generate additional resources that can be used to improve social services (such as healthcare, safe drinking water etc.). By generating additional resources for social services, unequal income distribution will be limited as such social services are distributed equally across each community; benefiting each individual. Thus, increasing living standards for the public.

To summarize, as noted in Anand's article (1993), we can view the relationship between human development and economic development in three different explanations. First, increase in average income leading to improved in health and nutrition (known as Capability Expansion through Economic Growth). Second, it is believed that social outcomes can only be improved by reducing income poverty (known as Capability Expansion through Poverty Reduction). Thirdly, (known as Capability Expansion through Social Services), defines the improvement of social outcomes with essential services such as education, health care, and clean drinking water.

Positive Effects of Economic Growth

Economic growth is a term used to indicate the increase of per capita gross domestic product (GDP) or other measure of aggregate income. It is often measured as the rate of change in GDP. Economic growth refers only to the quantity of goods and services produced.

Economic growth can be either positive or negative. Negative growth can be referred to by saying that the economy is shrinking. Negative growth is associated with economic recession and economic depression.

In order to compare per capita income across multiple countries, the statistics may be quoted in a single currency, based on either prevailing exchange rates or purchasing power parity. To compensate for changes in the value of money (inflation or deflation) the GDP or GNP is usually given in "real" or inflation adjusted, terms rather than the actual money figure compiled in a given year, which is called the nominal or current figure.

Income Distribution

Economist Xavier Sala-i-Martin argues that global income inequality is diminishing, and the World Bank argues that the rapid reduction in global poverty is in large part due to economic growth. The decline in poverty has been the slowest where growth performance has been the worst (i.e., in Africa). However, income equality has been decreasing in wealthier developed nations such as the United States and Australia for over 100 years, as evidenced in studies of the Gini Coefficient.

Quality of Life

Happiness has been shown to increase with a higher GDP per capita, at least up to a level of $15,000 per person.

Resource Depletion

Many earlier predictions of resource depletion, such as Thomas Malthus' 1798 predictions about approaching famines in Europe, The Population Bomb (1968), Limits to Growth (1972), and the Simon-Ehrlich wager (1980) have proven false, one reason being that advancements in technology and science have continually allowed previously unavailable resources to be utilized more economically. The book The Improving State of the World argues that the state of humanity is rapidly improving.

Economists theorize that economies are driven by new technology and ongoing improvements in efficiency — for instance, we have faster computers today than a year ago, but not necessarily computers requiring more natural resources to build. Also, physical limits may be very large if considering all the minerals in the planet Earth or all possible resources from space colonization, such as solar power satellites, asteroid mining, or a Dyson sphere. The book Mining the Sky: Untold Riches from the Asteroids, Comets, and Planets is one example of such arguments. However, depletion and declining production from old resources can sometimes occur before new resources are ready to replace them. This is, in part, the logical basis of the Peak Oil theory. Although individual oil wells and mines for other nonrenewable resources are often depleted, the availability of these resources has generally risen and their prices have dropped over the long-run.

Environmental Impact

Those more optimistic about the environmental impacts of growth believe that, although localized environmental effects may occur, large scale ecological effects are minor. The argument as stated by economists such as Julian Lincoln

Simon states that if these global-scale ecological effects exist, human ingenuity will find ways of adapting to them.

2.4 QUALITY OF LIFE AS INDICATOR OF SOCIO-ECONOMIC DEVELOPMENT

There does not appear to be one generally accepted definition of Quality of Life (QOL) in the extensive literature which has been generated on this subject over the past thirty years. Moreover other terms, such as social well-being, social welfare, and human development are often used as equivalent or analogous terms. For example, as noted, the UN Human Development Index is often described as measuring QOL. Generally, however, QOL is seen as the product of the interaction of a number of different factors — social, health, economic, and environmental conditions — which cumulatively, and often in unknown ways, interact to affect both human and social development at the level of individuals and societies. It is the "the notion of human welfare (well-being) measured by social indicators rather than by ""quantitative"" measures of income and production." (United Nations Glossary 2009).

The term Quality of Life" relates to the description and evaluation of the nature or conditions of life of people in a certain country or region.

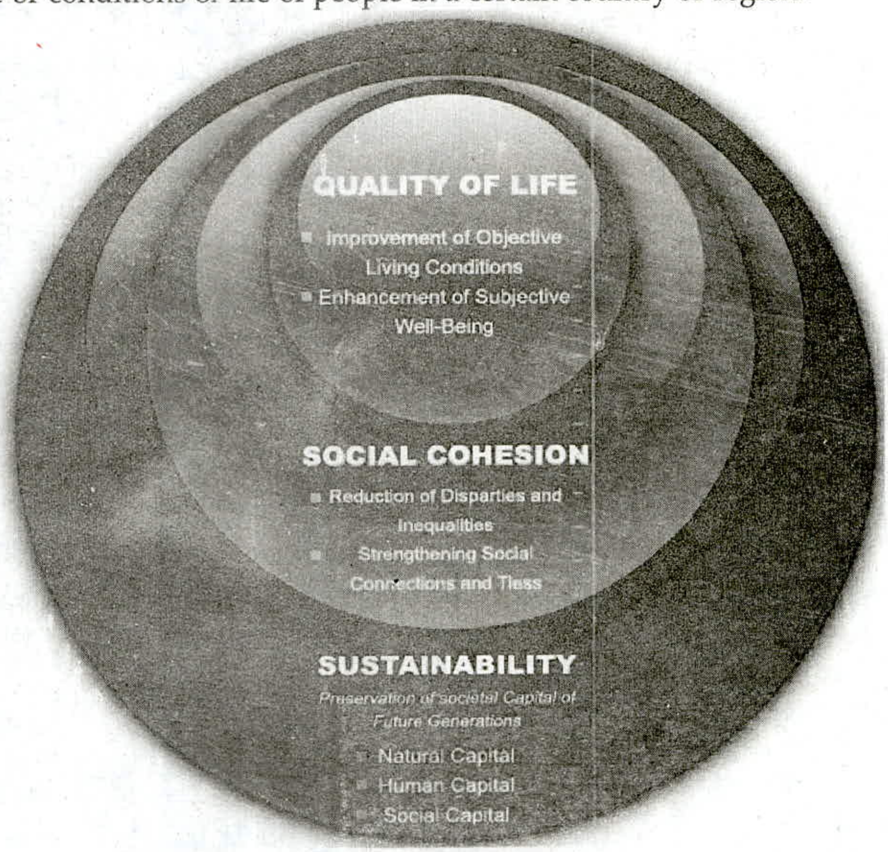

Figure 1: Quality of life (Definition and Parameters.)

Quality of life is formed by exogenous factors, with respect to an individual or a social group, forces like production technology, infrastructure, relations with other groups or countries, institutions of the society, natural environment, and also by endogenous factors including interaction within the society and values of a person or a society. The effect of these factors is not necessarily constant over time; for instance, environmental issues were paid relatively small attention a century ago while today ecology is undoubtedly one of the main people's concerns, and information technologies penetrating each sphere of human existence were not existent at that time at all.

Origin of the Concept

One of the most popular aggregate measures of the quality of life is the individual estimation of one's happiness. The debates over quality of life and of what maximizes it started from the Antiquity; Aristotle in Etica nicomahica used for the first time the term "eudaimonia", Greek for "happiness". Aristotle argues that the highest good for human beings is happiness. He insists that every action performed by humans is to pursue happiness. Aristotle also argues that human action is always aimed at some end or good. This "good" may not be viewed as a good action or any good by others, but for the doer of the good action, the activity will be perceived as good and that it will bring a favorable outcome.

Bertrand Russell (1930) in his celebrated book the conquest of happiness elaborated the concept of happiness as a relative sense of joy that varied from one culture to another and also from one individual to another.

Modern approach, though, implies the accurate definition of the terms and construction of models for the applicable fields of study. According to this scheme, four main aspects of happiness are inferred from the philosophic and scientific literature :

Figure 2: Four main Aspects of Happiness from philosophic and Scientific Literature

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Happiness here is defined as the degree to which an individual judges the overall quality of her/his life as-a-whole favorably." In the country of Bhutan, Gross National Happiness (GNH) is the main index for defining the quality of life in a more holistic and psychological term.

While all other countries focused on economic growth as the ultimate objective, Bhutan's King Jigme Singye Wangchuck 1972, in response to criticisms that the country was economically poor build its economy that would serve the country's unique culture based on Buddhist spiritual values. GNH is based on the premise that human society's true development would take place when material and spiritual development occur side by side in complementing and reinforcing each other. The four pillars of GNH are (1) promotion of equitable and sustainable socio-economic development, (2) preservation and promotion of cultural values, (3) conservation of the natural environment, and (4) establishment of good governance.

The impetus to the development of the means of the quality of life assessment and evaluation was given in 1960s owing to the Social Indicators Movement. In 1960s, public educational, social, ecological programs were initiated, and quantitative indicators to measure their success (or failure) were of great need. This movement, in turn, was brought about by a view in the society that life had in general become worse though the standards of living were considerably improving. Two types of the quality of life measures, or indicators, are distinguished, namely, subjective and objective ones. Also, expert estimations which combine both subjective and objective approaches are also widely used.

Objective Versus Subjective

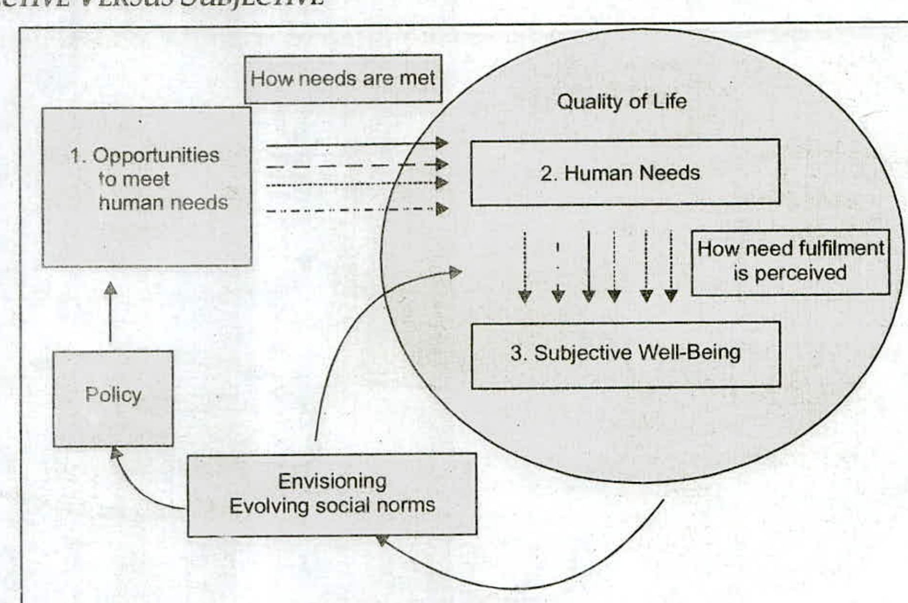

Figure 3: Subjective Well-Being

The subjective indicators reflect subjective evaluations of people's lives. They represent the micro level of the quality of life data collected from the individual agents. The measurements of this kind are essentially personal and based on the individual's perception of one's well-being and responses obtained in sociologic surveys and investigations. People are asked what they feel about their life, its values, what they care about most, etc. The questionnaires can sometimes contain up to a hundred of questions. Also, these data can be collected during longitudinal investigations of the population. Subjective measures reflect both the real status of the quality of life, or the conditions of life in general, and the attitude of the people toward these conditions, though the element of biased perception may never be eliminated.

The aggregation of these subjective measures by statistical techniques and methods can help to identify the values of society or different social groups. Eventually, such values graded according to scale may serve as indicators of the intangible dimensions of QOL.

The objective quality of life measures are built on the basis of hard variables", *i.e.,* the data from the municipal or governmental institutions and organizations which may include financial accounts, civil state records, medical statistics, pollution levels, and other pieces of factual information gathered by the institutions routinely. This approach aims at investigating the society as a whole by looking, in the most general sense, at the set of macroeconomic, social, demographic indicators which determine the conditions of life and the way people live. As an objective measure, the quality of life may be defined as an interrelation of the four determinants of the vital functioning and activity of the population.

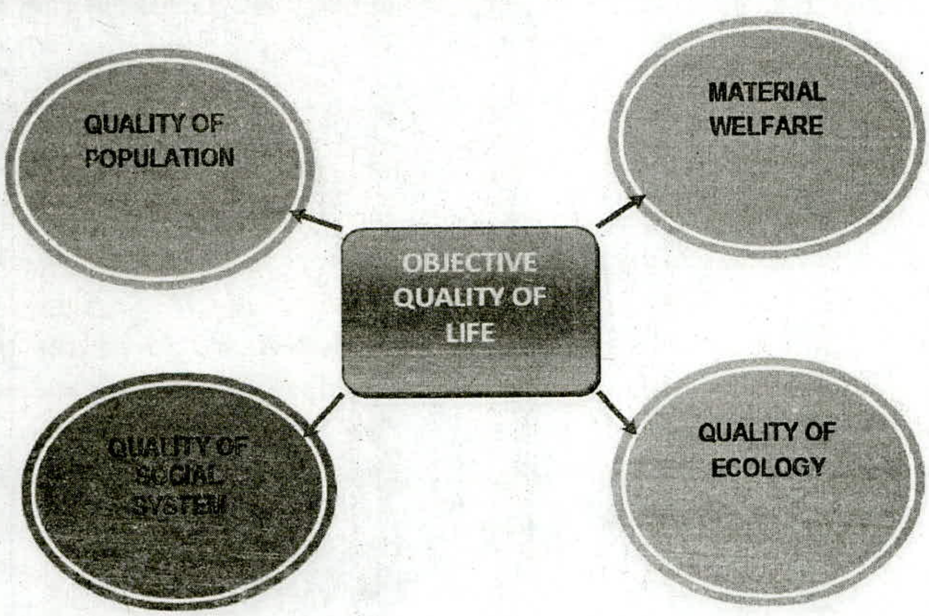

Figure 4: Objective Quality of Life

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The hierarchical decomposition of every component can go down to the basic low-level characteristics assessed by the statistical data or by expert estimation. For Example, the quality of population is inferred from the population demographic structure, the reproductive process and marital behaviour, the physical, psychic, and moral health of the population as well as their educational level and proficiency. The material welfare is determined by the standards of living, income differentiation, housing, telecommunication, trade, education, culture, health system, mass media capacities. More simply, parameters such as access to basic services (drinking water, sanitation etc.) and facilities (market, park, bank etc) are needed to depict QOL of a community. The social system quality relies upon the state and/or private provision in cases of the (permanent or temporary) disablement, citizens' rights for education, employment, recreation, private property and personal protection, political system stability, individual's inclusion to the social infrastructure, race and sex equality, social stability. The ecology state is influenced by the state of air and water sources (surface and ground), the level of chemical, radioactive, heavy metal pollution, etc. The list is far from being complete, and some items may be related to more than one category.

So, each of the mentioned properties and measures, being expressed via a system of statistic indicators, should then be integrated into a measure of the overall quality of life. There can be no doubt however, that QOL of a community or a social group or a nation for that matter is determined by the common members or citizens who are largest in number. Thus a balanced combination of the major aspects contributing to a QOL statement would be required. Further, though the set of parameters and their respective benchmarks may vary according to the inherent character of the community, for comparability across communities, a global set would be useful.

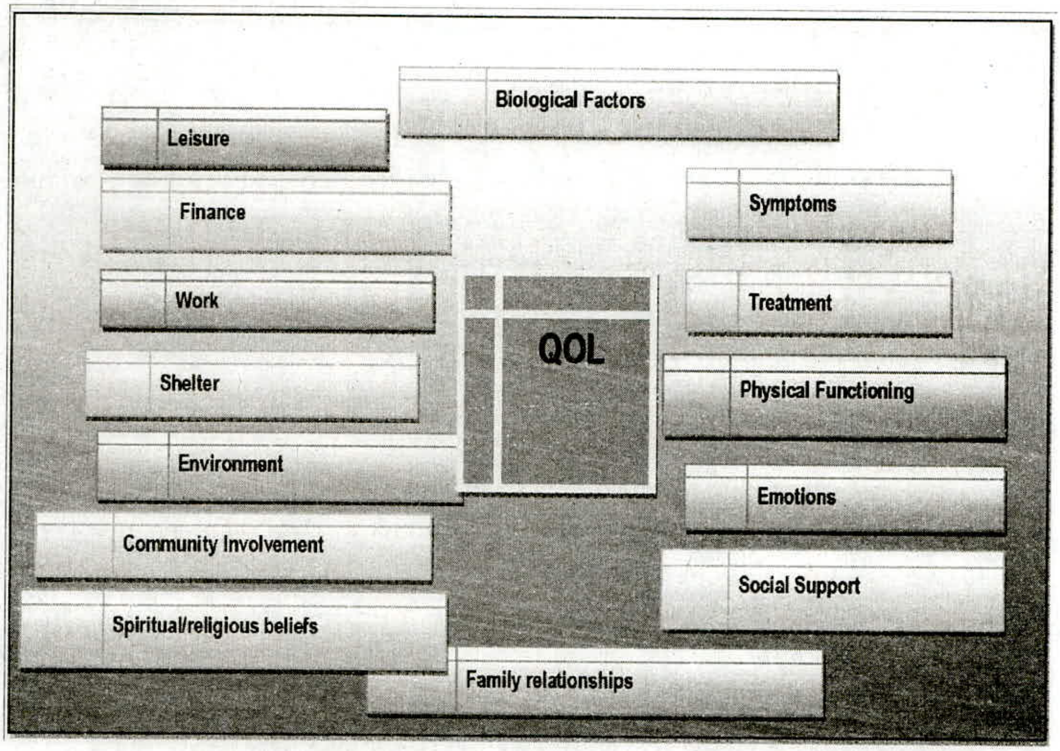
Quality of Life Indicators

The United Nations' Universal Declaration of Human Rights, adopted in 1948, provides an excellent list of factors that can be considered in evaluating quality of life. It includes many things that citizens of the United States and other developed countries take for granted, but that are not available in a significant number of countries around the world. Although this declaration is 60 years old, in many ways it still represents an ideal to be achieved rather than a baseline state of affairs.

Factors that may be used to measure quality of life include the following :

- freedom from slavery and torture
- equal protection of the law
- freedom from discrimination
- freedom of movement

- freedom of residence within one's home country
- presumption of innocence unless proved guilty
- right to marry
- right to have a family
- right to be treated equally without regard to gender, race, language, religion, political beliefs, nationality, socioeconomic status and more
- right to privacy
- freedom of thought
- freedom of religion
- free choice of employment
- right to fair pay
- equal pay for equal work
- right to vote
- right to rest and leisure
- right to education
- right to human dignity



Vancouver Declaration on Human Settlements

The United Nations Conference on Human Settlements held in 1976 (Vancouver Declaration On Human Settlements) reaffirmed the aim forging new partnerships for action at the international, national and local levels to improve our living environment by committing to the habitat Agenda. To achieve this objective the general principles of this declaration purported that :

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1. The improvement of the quality of life of human beings is the first and most important objective of every human settlement policy. These policies must facilitate the rapid and continuous improvement in the quality of life of all people, beginning with the satisfaction of the basic needs of food, shelter, clean water, employment, health, education, training, social security without any discrimination as to race, colour, sex, language, religion, ideology, national or social origin or other cause, in a frame of freedom, dignity and social justice.
2. In striving to achieve this objective, priority must be given to the needs of the most disadvantaged people.
3. Economic development should lead to the satisfaction of human needs and is a necessary means towards achieving a better quality of life, provided that it contributes to a more equitable distribution of its benefits among people and nations. In this context particular attention should be paid to the accelerated transition in developing countries from primary development to secondary development activities, and particularly to industrial development.
4. Human dignity and the exercise of free choice consistent with over-all public welfare are basic rights which must be assured in every society. It is therefore the duty of all people and Governments to join the struggle against any form of colonialism, foreign aggression and occupation, domination, apartheid and all forms of racism and racial discrimination referred to in the resolutions as adopted by the General Assembly of the United Nations.
5. The nations must avoid the pollution of the biosphere and the oceans and should join in the effort to end irrational exploitation of all environmental resources, whether non-renewable or renewable in the long term. The environment is the common heritage of mankind and its protection is the responsibility of the whole international can unity. All acts by nations and people should therefore be inspired by a deep respect for the protection of the environmental resources upon which life itself depends.
6. All countries, particularly developing countries, must create conditions which make possible the full integration of women and youth in political, economic and social activities, particularly in the planning and implementation of human settlement proposals and in all the associated activities, on the basis of equal rights, in order to achieve an efficient and full utilization of available human resources, bearing in mind that women constitute half of the world population.

Habitat Agenda

The Habitat Agenda is the main political document that came out of the Habitat II conference in Istanbul, Turkey 3 to 14 June 1996. Adopted by 171 countries, at what was called the City Summit it contains over 100 commitments and 600 recommendations on human settlements issues. This document led to the Istanbul Declaration on Human Settlements.

The Istanbul Declaration on Human Settlements of 1996 is a reaffirmation of the Habitat Agenda agreed separately at the Habitat II conference. It notably reaffirms the commitment of world governments to better standards of living in larger freedom for all humankind.

1. The Declaration seeks to endorse the universal goals of ensuring adequate shelter for all and making human settlements safer, healthier and more liveable, equitable, sustainable and productive. Two major themes of the Conference - adequate shelter for all and sustainable human settlements development in an urbanizing world - have been inspired by the Charter of the United Nations and are aimed at reaffirming existing and forging new partnerships for action at the international, national and local levels to improve our living environment.
2. The continuing deterioration of conditions of shelter and human settlements should be treated with a sense of urgency. At the same time, cities and towns are seen as centres of civilization, generating economic development and social, cultural, spiritual and scientific advancement. Therefore, advantage must be taken of the opportunities presented by settlements and preserve their diversitv to promote solidarity among all our peoples.
3. Commitment to better standards of living in larger freedom for all humankind should be a paramount goal. The UNCHS, 1976, International Year of Shelter for the Homeless and the Global Strategy for Shelter to the Year 2000, the UNCED 1992, should be integrated to achieve a better quality of life.
4. To improve the quality of life within human settlements, the deteriorating conditions that in most cases, particularly in developing countries, that have reached crisis proportions must be combated. Consequently, unsustainable consumption and production patterns, particularly in industrialized countries; unsustainable population changes, including changes in structure and distribution, giving priority consideration to the tendency towards excessive population concentration; homelessness; increasing poverty; unemployment; social exclusion; family instability; inadequate resources; lack of basic infrastructure and services; lack of adequate planning; growing insecurity and violence; environmental

degradation; and increased vulnerability to disasters- must be addressed in order to improve the quality of life is citizens.

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5. The challenges of human settlements are global, but countries and regions also face specific problems which need specific solutions. It is recognized that the need to intensify efforts and cooperation to improve living conditions in the cities, towns and villages throughout the world, particularly in developing countries, where the situation is especially grave, and in countries with economies in transition. In this connection, globalization of the world economy presents opportunities and challenges for the development process, as well as risks and uncertainties, and that achievement of the goals of the Habitat Agenda would be facilitated by, inter alia, positive actions on the issues of financing of development, external debt, international trade and transfer of technology. Cities must be places where human beings lead fulfilling lives in dignity, good health, safety, happiness and hope.
6. Rural and urban development are interdependent. In addition to improving the urban habitat, there must also work to extend adequate infrastructure, public services and employment opportunities to rural areas in order to enhance their attractiveness, develop an integrated network of settlements and minimize rural- to-urban migration. Small- and medium-sized towns need special focus.
7. As human beings are at the centre of our concern for sustainable development, they are the basis for our actions as in implementing the Habitat Agenda. There are particular needs of women, children and youth for safe, healthy and secure living conditions. Intensification of efforts to eradicate poverty and discrimination, to promote and protect all human rights and fundamental freedoms for all, and to provide for basic needs, such as education, nutrition and life-span health care services, and, especially, adequate shelter for all should be promoted. The promotion of full accessibility for people with disabilities, as well as gender equality in policies, programmes and projects for shelter and sustainable human settlements development should be encouraged.
8. In order to sustain global environment and improve the quality of living in human settlements, there is a need to promote sustainable patterns of production, consumption, transportation and settlements development; pollution prevention; respect for the carrying capacity of ecosystems; and the preservation of opportunities for future generations. In addition, promotion of healthy living environments, especially through the provision of adequate quantities of safe water and effective management of waste is needed.

9. Promote the conservation, rehabilitation and maintenance of buildings, monuments, open spaces, landscapes and settlement patterns of historical, cultural, architectural, natural, religious and spiritual value.

The long-term impact of the commitments made by Governments and the international community, together with local authorities and nongovernmental organizations, at Habitat II will depend on the implementation of actions agreed upon at all levels, including the local, national, regional and international levels. National plans of action and/or other relevant national programmes and actions to achieve the goals of adequate shelter for all and sustainable human settlements development will need to be developed or strengthened, where appropriate, and their implementation will need to be monitored and evaluated by Governments in close cooperation with their partners in sustainable development at the national level. Similarly, progress in implementing the Habitat Agenda needs to be assessed with a view to encouraging and enabling all interested parties to improve their performance and to strengthen international cooperation.

Declaration on Cities and Other Human Settlements in the New Millennium

Declaration on Cities and Other Human Settlements in the New Millennium is the United Nations General Assembly Resolution S25.2 of 9 June 2001 reaffirming that the Istanbul Declaration and the Habitat Agenda will remain the basic framework for sustainable human settlements development in the years to come.

Millennium Development Goals (MDGs)

In 2001, recognizing the need to assist impoverished nations more aggressively and as such to improve their basic quality if living, UN member states adopted the international development targets of promoting eight goals. The MDGs aim to spur development by improving social and economic conditions in the world's poorest countries. Set for the year 2015, the MDGs are an agreed set of goals that can be achieved if all actors work together and do their part. Poor countries have pledged to govern better, and invest in their people through health care and education. Rich countries have pledged to support them, through aid, debt relief, and fairer trade.

Goal 1: Eradicate extreme poverty and hunger

Target 1- Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.

Target 2- Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2: Achieve universal primary education

Target 3- Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3: Promote gender equality and empower women.

Target 4- Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015.

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Goal 4: Reduce child mortality

Target 5- Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5: Improve maternal health

Target 6- Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6: Combat HIV/AIDS, malaria and other diseases

Target 7- Have halted by 2015 and begun to reverse the spread of HIV/AIDS.

Target 8- Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.

Goal 7: Ensure environmental sustainability

Target 9- Integrate the principles of sustainable development into country policies and programmes and reverse the losses of environmental resources.

Target 10- Halve by 2015 the proportion of people without sustainable access to safe drinking water.

Target 11- By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8: Develop a Global Partnership for Development

Target 12- Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.

Target 13- Address the special needs of the least developed countries.

Target 14- Address the special needs of landlocked countries and Small Island developing States.

Target 15- Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.

State of the World's Cities 2008/2009- "Harmonious Cities"

The UN-Habitat produced the state of the cities report- harmonious cities for 2008/2009. The data and analysis contained in the report are intended to improve the understanding of how cities function and what the global community, can do to increase their liveability, unity and quality of life.

The report revealed that spatial and social disparities within cities and between cities and regions within the same country are growing as some areas benefit more than others from public services, infrastructure and other investments. Evidence presented in this report also shows that when cities already have high levels of inequality, spatial and social disparities are likely to become more, and not less, pronounced with economic growth. High levels of urban inequality present a double jeopardy.

The report adopts the concept of Harmonious Cities as a theoretical framework in order to understand today's urban world, and also as an operational tool to confront the most important challenges facing urban areas and their development processes. It recognizes that tolerance, fairness, social justice quality of life and good governance, all of which are inter-related, are as important to sustainable urban development as physical planning. The report also assesses the various intangible assets within cities that contribute to harmony, such as cultural heritage, sense of place and memory and the complex set of social and symbolic relationships that give cities meaning. It argues that these intangible assets represent the "soul of the city" and are as important for harmonious urban development as tangible assets.

Key Findings

1. Central governments play a critical role in determining the prosperity and growth of cities.
2. Balanced urban and regional development can be achieved through consistent and targeted investments in transport and communications infrastructure.
3. Cities are becoming more unequal.
4. High levels of urban inequality are socially destabilizing and economically unsustainable.
5. Focused and targeted investments and interventions can significantly improve the lives of slum dwellers.
6. Cities provide an opportunity to mitigate or even reverse the impact of global climate change as they provide the economies of scale that reduce per capita costs and demand for resources.
7. Evidence shows that compact and well-regulated cities with environmentally friendly public transport systems have a positive environmental impact.
8. Sea level rise could have a devastating impact on coastal cities.
9. Commitment to pro-poor, inclusive urban development.
10. Coordination and collaboration between national, provincial and local authorities can achieve harmonious regional and urban development, provided they share a common vision and demonstrate sufficient political will.

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United Nations Human Development Index

The highest level QOL study, and perhaps the best known, is the United Nations Human Development Report which was developed by the Human Development Report Office in 1990 and has been subsequently developed into what is regarded as one of the best studies on quality of life. The cornerstone of the report is the Human Development Index (HDI).

The Human Development approach arose in part as a result of growing criticism to the leading development approach of the 1980s, which presumed a close link between national economic growth and the expansion of individual human choices.

The index was developed in 1990 by Pakistani economist Mahbub ul Haq, Sir Richard Jolly, with help from Gustav Ranis of Yale University and Lord Meghnad Desai of the London School of Economics (Human development report 1990). It has been used since then by UNDP in its annual Human Development Report. It is claimed that ideas of Indian Nobel prize winner Amartya Sen were influentia in the development of the HDI. The HDI now serves as a path towards a wide variety of more detailed measures contained in the Human Development Reports. Each played a key role in formulating the human development paradigm, came to recognize the need for an alternative development model due to many factors, including :

- Growing evidence that did not support the then prevailing belief in the "trickle down" power of market forces to spread economic benefits and end poverty;
- The human costs of Structural Adjustment Programmes became more apparent;
- Social ills (crime, weakening of social fabric, HIV/AIDS, pollution, etc.) were still spreading even in cases of strong and consistent economic growth;
- A wave of democratization in the early 90's raised hopes for people-centred models.

Rationale for HDI

Human development index is a popular quantitative measure of the degree of a country's success in developing its human potential. Its introduction in early 90's was caused by the necessity to find the measure of human progress which is people rather than economic-centred approach.

Economic growth does not necessarily imply human development, as well as a strong human potential is not always reflected in economic performance, but in general these factors act as mutually reinforcing entities, and this bilateral influence can additionally be strengthened by proper government policies.

During World War II, gross domestic product (then gross national product) accounts were introduced to measure wartime production capacity (Cobb et al., 1995). Since then, GDP has become the world's most ubiquitous indicator of economic progress. It is widely used by policymakers, economists, international agencies and the media as the primary scorecard of a nation's economic health and wellbeing. Yet, as we know from its creator Simon Kuznets, the GDP was never intended for this role (Kuznets, 1934). It is merely a gross tally of products and services bought and sold, with no distinctions between transactions that enhance well being and those that diminish it. Therefore, historically, GNP per capita (per person) as a result countries with higher GDP were more likely to also score highly on other measures of quality of life, such as life expectancy. However, there are serious limitations to the usefulness of GDP as a measure of quality of life :

- GDP does not measure certain factors that affect quality of life, such as the quality of the environment (as distinct from the input value) and security from crime. This leads to distortions - for example, spending on cleaning up an oil spill is included in GDP, but the negative impact of the spill on well-being (e.g. loss of clean beaches) is not measured.
- GDP is the mean (average) wealth rather than median (middle-point) wealth. Countries with a skewed income distribution may have a relatively high per-capita GDP while the majority of its citizens have a relatively low level of income, due to concentration of wealth in the hands of a small fraction of the population as explained in the Gini Coefficient.

Within each of these categories, there are a large number of sub-categories, covering a vast array of social and economic indicators. However, in recognition of the limitations of the HDI as a measure of human development, a number of other composite indices have been subsequently developed. These include a gender-related development index (GDI), a gender empowerment measure (GEM), a human poverty index (HPI), and a technological achievement index (TAI), Index of Sustainable Economic Welfare (ISEW), Genuine Progress Indicator (GPI), Gross National Happiness (GNH) and Sustainable National Income (SNI) are used.

Since 1990, United Nations Development Programme (UNDP) has been publishing annually its Human Development Report" which explores in detail the relationship between human development and hard variables" representing the economic, social, demographic state of the society. This program aims at revealing the relative performance of different countries via constructing a numerical measure of human development. Of course, the concept of human development is much deeper and richer than what can be captured in a composite index or even by a detailed set of statistical indicators. Yet it is useful to aggregate different aspects of a complex reality.

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Though simple in construction, HDI provides useful insights into the causes of the differences between countries' position in the world ranking, and even may be used as a policy target. It also reveals very sharply the structure and direction of the progress (or retrogression) in human potential in the course of economic growth of a country, and the problems accompanying this progress across approx. 170 countries for which necessary data are available.

Dimensions of HDI

The HDI combines three basic dimensions :

- Life expectancy at birth, as an index of population health and longevity
- Knowledge and education, as measured by the adult literacy rate (with two thirds weighting) and the combined primary, secondary, and tertiary gross enrollment ratio (with one-third weighting).
- Standard of living, as measured by the natural logarithm of gross domestic product (GDP) per capita at purchasing power parity (PPP) in United States dollars.

The HDI value for each country (region, etc.) indicates how far it has to go to attain certain defined goals : an average life span of 85 years, access to education for all and a standard of living on the world level. In fact, HDI weights deprivation in these three factors, *i.e.*, the relative distance from the desirable goal on the unit scale.

Calculation of HDI

For any component of the HDI, individual indices are computed according to the general formula :

$$\boxed{\text{Index} = \frac{Actual\ value_i - Minimum\ value_i}{Maximum\ value_i - Minimum\ value_i}}$$

Fixed minimum and maximum values have been established for each of the indicators :

- Life expectancy at birth: 25 and 85 years;
- Adult literacy: 0% and 100%;
- Combined enrolment ratio: 0% and 100%;
- Real GDP per capita (PPP$): PPP$100 and PPP$40000.

Educational attainment index is built as a linear combination of adult literacy and combined primary, secondary and tertiary enrollment ratios with weights 2=3 and 1=3, respectively :

Where *min (x)* and *max (x)* are the lowest and highest values the variable *x* can attain, respectively.

The Human Development Index (HDI) then represents the average of the following three general indices :

HDI = (Life expectancy index + Education attainment index + Adjusted income index)/3

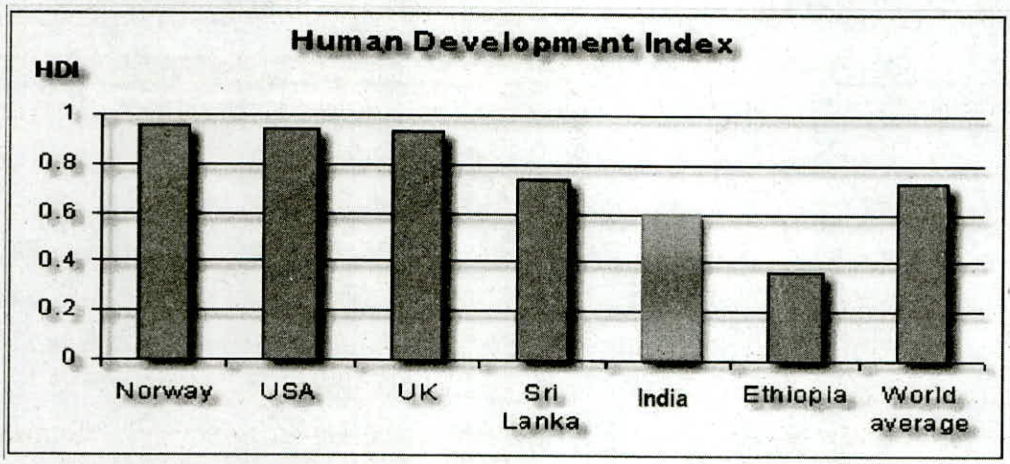

Figure 5: Human Development Index 2008 (Source: United Nations Statistical Division)

Economist Intelligence Unit's 'Quality of Life Index'

The Economist Intelligence Unit's quality of life index is based on a unique methodology that links the results of subjective life-satisfaction surveys to the objective determinants of quality of life across countries. The index was calculated in 2005 and includes data from 111 countries and territories. Economist Intelligence Unit's quality of life index (India is ranked 73 of 111 countries at 5.759). The survey uses nine quality of life factors to determine a nation's score. They are listed below including the indicators used to represent these factors :

1. ***Health:*** Life expectancy at birth (in years). *Source: US Census Bureau*
2. ***Family life:*** Divorce rate (per 1,000 population), converted into index of 1 (lowest divorce rates) to 5 (highest). *Sources: UN Euromonitor*
3. ***Community life:*** Dummy variable taking value 1 if country has either high rate of church attendance or trade-union membership; zero otherwise. *Source: World Values Survey*
4. ***Material well being:*** GDP per person, at PPP in $. *Source: Economist Intelligence Unit*
5. ***Political stability and security:*** Political stability and security ratings. *Source: Economist Intelligence Unit*
6. ***Climate and geography:*** Latitude, to distinguish between warmer and colder climates. *Source: CIA World Factbook*
7. ***Job security:*** Unemployment rate (%.) *Source: Economist Intelligence Unit*

8. ***Political freedom:*** Average of indexes of political and civil liberties. Scale of 1 (completely free) to 7 (unfree). *Source: Freedom House*
9. ***Gender equality:*** measured using ratio of average male and female earnings. *Source: UNDP* Human Development Report

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Table 1: Economist Intelligence Unit's QOL Reference Tables

Regression statistics	Coefficients	Standard error	Statistic
Constant	2.7959	0.7890	3.5435
GDP per person	0.00003	0.00001	3.5247
Life expectancy	0.0448	0.0106	4.2299
Political freedom	-0.1052	0.0561	-1.8749
Job security	-0.0217	0.0099	-2.2062
Family life	-0.1878	0.0640	-2.9349
Climate and geography	-1.3534	0.4691	-2.8852
Political stability	0.1519	0.0520	2.9247
Gender equality	0.7423	0.5428	1.3676
Community life	0.3865	0.1237	3.1255

	Economist.com survey weights	Quality-of-life weights
Material wellbeing	11.5	18.8
Health	15.0	19.0
Family relations	14.3	11.3
Job security	11.9	7.7
Social and community activities	10.9	12.2
Political freedom and security	25.3	26.2
Gender equality	11.1	4.7
	100.0	100.0

India's Quality of Life Scenario

Since independence, India has paved the way through democracy for social development. India has been implementing national strategies and plans through Five Year Plans (F.Y.P.), various multifaceted development schemes and programmes. These programmes, backed by large human and financial resources, have been successful in achieving the predetermined goals in the areas of sustained economic growth, education, health, sanitation, housing and employment, as well as other related fields, so that minimum needs are duly taken care of and a decent standard of life attained.

Eradication of poverty and provision of basic minimum services to all citizens are integral elements of any strategy to improve the quality of life. No developmental process can be sustainable unless it leads to visible and widespread improvement in these areas. India believes that poverty anywhere is a threat to prosperity everywhere and that concerted international action is essential to ensure global prosperity and better standards of life for all. Based on this belief, India has actively played a positive, constructive role, inter alia, in the deliberations of the UN, its specialized agencies and various intergovernmental mechanisms.

The Eighth Plan (1992-1997) had identified "human development" as its main focus. During this plan period, the indicators of social development have shown a significant improvement. 1995-96 witnessed a very satisfactory growth rate in GDP of 7.1 per cent. The momentum of growth has been maintained in 1996-1997, thus providing increasing evidence that the growth potential has improved as a result of the processes of deregulation and globalization initiated by the government.

The Ninth plan (1997-2002) was launched in the 50th year of India's Independence. The objectives of the Ninth Plan arose from the Common Minimum Programme of the Government; a few pertinent of these objectives are as follows :

1. Economic growth and overall development;
2. Human development with emphasis on health, education and minimum needs, including protection of human rights and raising the social status of the weak and the poor; and
3. Directly targeted programmes for poverty alleviation through employment generation, training and building up asset endowment of the poor.

HDI India

The HDI for India is 0.619, which gives the country a rank of 128th out of 177 countries with data (Table 2). As shown in the table below, the three parameters used for calculating the HDI are identified. As such these parameters combine Life expectancy at birth (63.7%), adult literacy rate (64.15) and GDP per capita 93452), have been used to calculate the GDP value.

HDI value	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and older)	Combined primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita (PPP US$)
1. Iceland (0.968)	1. Japan (82.3)	1. Georgia (100.0)	1. Australia (113.0)	1. Luxembourg (60,228)
126. Morocco (0.646)	123. Pakistan (64.6)	112. Rwanda (64.9)	120. Namibia (64.7)	115. Syrian Arab Republic (3.808)
128. India (0.619)	125. India (63.7)	114. India (61.0)	122. India (63.8)	117. India (3,452)
129. Solomon Islands (0.602)	126. Mauritania (63.2)	115. Sudan (60.9)	123. Vanuatu (63.4)	118. Honduras (3,430)
177. Sierra Leone (0.336)	177. Zambia (40.5)	139. Burkina Faso (23.6)	172. Niger (22.7)	174. Malawi (667)

Table 2: India's human development index 2005

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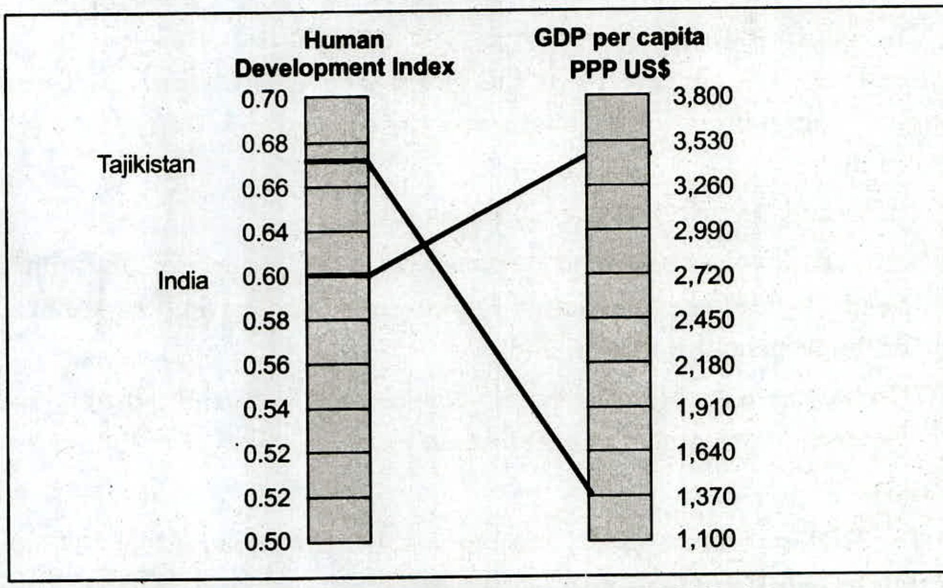
This year's HDI, which refers to 2005, highlights the very large gaps in well-being and life chances that continue to divide our increasingly interconnected world. By looking at some of the most fundamental aspects of people's lives and opportunities it provides a much more complete picture of a country's development than other indicators, such as GDP per capita. Figure 6 illustrates that country on the same level of HDI as India can have very different levels of income. Of the components of the HDI, only income and gross enrolment are somewhat responsive to short term policy changes. For that reason, it is important to examine changes in the human development index over time.



HDI and GDP data refers to 2005 as reported in the 2007/2008 Report.

Figure 6: India HDI compared with GDP per capita

The human development index trends tell an important story in that aspect. Since the mid-1970s almost all regions have been progressively increasing their HDI score (Figure 7). East Asia and South Asia have accelerated progress since 1990. Central and Eastern Europe and the Commonwealth of Independent States (CIS), following a catastrophic decline in the first half of the 1990s, has also recovered to the level before the reversal. The major exception is sub-Saharan Africa. Since 1990 it has stagnated, partly because of economic reversal but principally because of the catastrophic effect of HIV/AIDS on life expectancy.

Human poverty in India: focusing on the most deprived in multiple dimensions of poverty

The HDI measures the average progress of a country in human development. The Human Poverty Index for developing countries (HPI-1), focuses on the proportion of people below a threshold level in the same dimensions of human development as the human development index - living a long and healthy life, having access to education, and a decent standard of living. By looking beyond income deprivation, the HPI-1 represents a multi-dimensional alternative to the $1 a day (PPP US$) poverty measure.

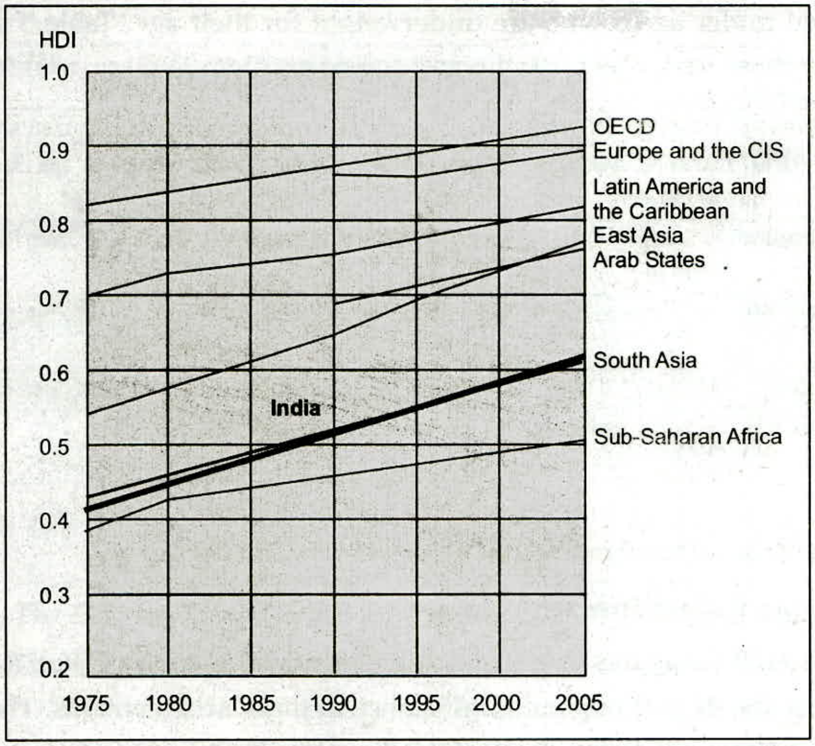


Figure 7: HDI trends 1975-2007, compared with other countries

INDIA HDI INDEX TREND	
Year	HDI Index Value
1975	0.411
1980	0.437
1985	0.476
1990	0.514
1995	0.548
2000	0.579
2002	0.595
2007	0.619

The HPI-1 value of 31.3 for India, ranks 62nd among 108 developing countries for which the index has been calculated.

The HPI-1 measures severe deprivation in health by the proportion of people who are not expected to survive age 40. Education is measured by the adult carbon budget. India has signed and ratified the Kyoto Protocol. As a non-Annex I Party to the Protocol but is not bound by specific targets for greenhouse gas emissions.

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India Urbanization and Quality of Life

At the moment, India is among the countries of low level of urbanization. Number of urban agglomeration /town has grown from 1827 in 1901 to 5161 in 2001. Number of population residing in urban areas has increased from 2.58 crores in 1901 to 28.53 crores in 2001. Only 28% of population was living in urban areas as per 2001 census. Over the years there has been continuous concentration of population in class I towns.

India's urbanization is often termed as over urbanization, pseudo-urbanization. The big cities attained inordinately large population size leading to virtual collapse in the urban services and followed by basic problems in the field of housing, slum, water, infrastructure, quality of life etc. Urbanization is a product of demographic explosion and poverty induced rural-urban migration. Urbanization is occurring not due to urban pull but due to rural push. Globalization, liberalization, privatization are addressing negative process for urbanization in India.

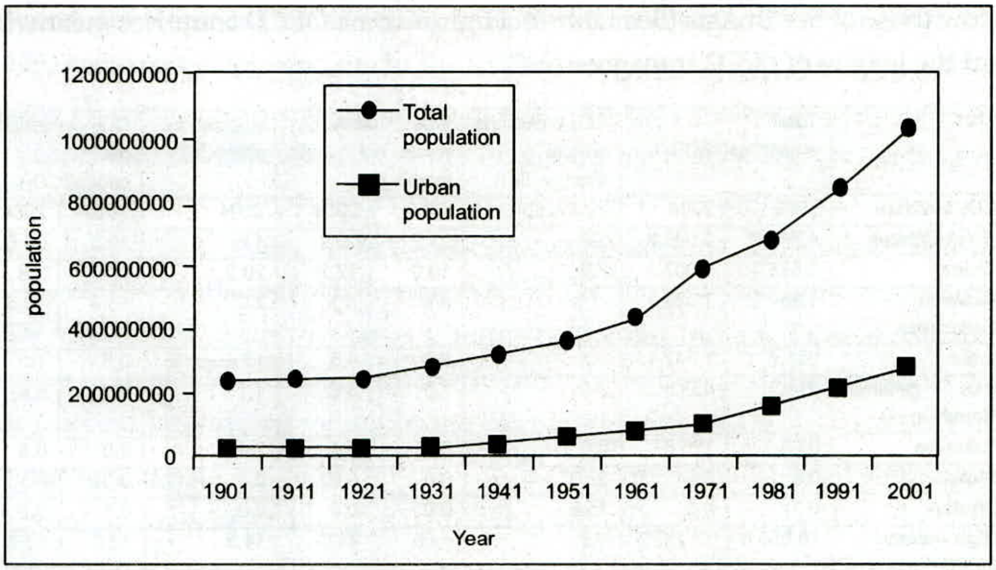

Figure 6: Process of Urbanization in India.

This process of urbanization in India is shown in Fig. 6 it reflects a gradual increasing trend of urbanization. India is at acceleration stage of the process of urbanization. According to 2001 census, in India out of total population of 1027 million about 285 million live in urban areas and 742 million live in rural areas.

Basic feature of urbanization in India can be highlighted as :

1. Lopsided urbanization induces growth of class I cities.

2. Urbanization occurs without industrialization and strong economic base.
3. Urbanization is mainly a product of demographic explosion and poverty induced rural - urban migration.
4. Rapid urbanization leads to massive growth of slum followed by misery, poverty, unemployment, exploitation, inequalities, degradation in the quality of urban life.
5. Urbanization occurs not due to urban pull but due to rural push.
6. Poor quality of rural-urban migration leads to poor quality of urbanization (Bhagat, 1992).
7. Distress migration initiates urban decay.

The pattern of urbanization in India is characterized by continuous concentration of population and activities in large cities. Kingsley Davis used the term "over-urbanization (Kingsley Davis and Golden, 1954) "where in urban misery and rural poverty exist side by side with the result that city can hardly be called dynamic" and where inefficient, unproductive informal sector (Kundu and Basu, 1998) becomes increasingly apparent. The big cities attained inordinately large population size leading to virtual collapse in the urban services and quality of life. Large cities are structurally weak and formal instead of being functional entities because of inadequate economic base. Problem of urbanization is manifestation of its impact on the quality of life resulting in problems in housing, slums, transport, water supply and sanitation, water pollution and air pollution, inadequate provision for social infrastructure (school, hospital, etc). Class I cities such as Calcutta, Bombay, Delhi, Madras etc have reached saturation level of employment generating capacity (Kundu, 1997). Since these cities are suffering from urban poverty, unemployment, housing shortage, crisis in urban infra-structural services these large cities cannot absorb these distressed rural migrants i.e. poor landless illiterate and unskilled agricultural labourers. Hence this migration to urban class I cities causes' urban crisis more acute.

Urbanization through development of "Mandi" (village marketing outlet) towns, small towns, social and cultural activities, including educational and medical centres of excellence, religious, cultural and historical centres, tourism, and induced growth of new economic activity centres have been some other urban processes that have successfully developed sustainable urban settlements. Urban India has four mega cities (population 5 million plus), 19 metro cities (1 million plus), 3000 large towns (0.1 million plus) and 3,396 small and medium towns (less than 0.1 million). By the turn of the century, India will have some 40 metro cities.

Megacities grow in urban population (Nayak, 1962) not in urban prosperity, and culture. Hence it is urbanization without urban functional characteristics.

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These mega cities are subject to extreme filthy slum and very cruel mega city denying shelter, drinking water, electricity, sanitation (Kundu, Bagchi and Kundu, 1999) to the extreme poor and rural migrant. Urbanization is degenerating social and economic inequalities (Kundu and Gupta, 1996) which warrants social conflicts, crimes and anti-social activities.

Lopsided and uncontrolled urbanization led to environmental degradation jand degradation in the quality of urban life—— pollution in sound, air, water, created by disposal of hazardous waste. Illiterate, low- skill or no-skill migrants from rural areas are absorbed in poor low grade urban informal sector at a very low wage rate and urban informal sector becomes in-efficient and unproductive. In India the quality of life between rural and urban areas are different. For example: the level of mortality, as measured by crude death rate, infant mortality rate and child mortality rate, is 36 to 40 percent lower in urban areas than rural; The level of fertility is about 25 percent lower in urban areas than the rural. But still it is quite high for the national goals; Use of modern family planning methods is about 37 percent higher in urban areas than rural; The urban areas have reached goals for the country for mortality indicators though it is for behind the goals set for the family planning program and the fertility rate; Utilization of MCH services is much higher in urban areas compared to rural though the goal of 100 percent coverage is still far off; Socio-economic indicators in urban area also show a relatively better situation compared to rural areas, through urban areas also lag far behind their desired levels; Fifty to sixty percent of the population in these large cities is living in urban slums without almost no civic amenities, abject poverty and a very dense settlement pattern. Their life in many cases is worse than life in rural areas. This creates law and order and varied health problems. In other words, urban areas show a much better profile than rural areas in relation to quality of life.

Urbanization has had a distinct impact on human settlements, people's lifestyle and quality of life. Construction technology and land constraints have changed the housing typology in urban areas from single-unit plotted development to vertical structures and multi-household complexes. This changing pattern is seen in mega and metro cities as well as in large towns, but is not so evident in small townsand rural areas. There is, however, clear improvement in services and the durability of the dwelling units in these places as well. The parallel development of formal and informal housing has produced the multiple-city syndrome in urban India: a city of the poor and a city of the rich, with distinct variations in levels of amenities, types of structures, level of income and quality of life.

Urbanization has improved the status of women in the Indian society because of accessibility of education, health services, information and better employment opportunities. Deficiencies in terms of access to basic services necessary for congenial habitats particularly for women in low income settlements, is a major concern. Equally important is the need to bring in gender-sensitivity in human settlements planning and development.

Given the dynamic nature of urban settlements in India, which is depicted by differences in demographic characteristics, socio-cultural background and values (including caste and indigenous groups), socio-economic patterns, standard of living and consumption, housing characteristics, social and physical infrastructure, physical environmental, transportation systems among others, there is need for local level quality of life assessment away from international set of indicators which does not holistically capture the vibrant character of Indian towns and cities. QOL of a community or social group must reflect the common needs of its citizenry. Thus a balanced combination of the major aspects contributing to a QOL statement would be required. Parameters that have been applied in New Zealand and Canada can be assessed along a more localized level in the Indian scenario, this will undoubtedly help in the identification of what is what is going well in the urban setting and then citizens would acknowledge what and where improvements are required. Therefore this would provide information that contributes to the understanding of social, economic and environmental conditions which can be used to describe and quantify the quality of life of those living in India's major urban areas.

2.5 UNDERDEVELOPMENT AND CHARACTERISTICS OF UNDERDEVELOPED COUNTRIES

Underdevelopment is the state of a nation (*e.g.*, a country) that has not reached its maturity.

It is often used to refer to economic underdevelopment, symptoms of which include lack of access to job opportunities, health care, drinkable water, food, education and housing.

The term "underdevelopment" originated in the mid-1950s. In October 1955, Gunnar Myrdal gave a series of lectures in Cairo at the invitation of the National Bank of Egypt, later published under the title Development and Under-development: A note on the Mechanism of National and International Economic Inequality (Cairo, 1956). A revised version was published as Economic Theory and Underdeveloped people" (Duckworth, 1957). However, the term was popularized especially by Andre Gunder Frank in the late 1960s.

Underdevelopment takes place when resources are not used to their full socio-economic potential, with the result that local or regional development is slower in most cases than it should be. Furthermore, it results from the complex interplay of internal and external factors that allow less developed countries only a lop-sided development progression. Underdeveloped nations are characterized by a wide disparity between their rich and poor populations, and an unhealthy balance of trade.

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The economic and social development of many developing countries has not been even. They have an unequal trade balance which results from their dependence upon primary products (usually only a handful) for their export receipts. These commodities are often *(a)* in limited demand in the industrialized countries (for example: tea, coffee, sugar, cocoa, bananas); *(b)* vulnerable to replacement by synthetic substitutes (jute, cotton, etc); or *(c)* are experiencing shrinking demand with the evolution of new technologies that require smaller quantities of raw materials (as is the case with many metals). Prices cannot be raised as this simply hastens the use of replacement synthetics or alloys, nor can production be expanded as this rapidly depresses prices. Consequently, the primary commodities upon which most of the developing countries depend are subject to considerable short-term price fluctuation, rendering the foreign exchange receipts of the developing nations unstable and vulnerable. Development thus remains elusive.

In 1972, the then Prime Minister of India, Mrs. Indira Gandhi emphasized, at the UN Conference on Human Environment at Stockholm, that the removal of poverty is an integral part of the goal of an environmental strategy for the world. The concepts of interrelatedness, of a shared planet, of global citizenship, and of 'spaceship earth' cannot be restricted to environmental issues alone. They apply equally to the shared and inter-linked responsibilities of environmental protection and human development.

History has led to vast inequalities, leaving almost three-fourths of the world's people living in less-developed countries and one-fifth below the poverty line. The long-term impact of past industrialization, exploitation and environmental damage cannot be wished away. It is only right that development in this new century be even more conscious of its long-term impact. The problems are complex and the choices difficult. Our common future can only be achieved with a better understanding of our common concerns and shared responsibilities.

Following are some important issues and approaches pertaining to the growth of developing countries:

Poverty Eradication and Sustainable Livelihoods

Poverty and a degraded environment are closely inter-related, especially where people depend for their livelihoods primarily on the natural resource base of their immediate environment. Restoring natural systems and improving natural resource management practices at the grassroots level are central to a strategy to eliminate poverty.

The survival needs of the poor force them to continue to degrade an already degraded environment. Removal of poverty is therefore a prerequisite for the protection of the environment.

Poverty magnifies the problem of hunger and malnutrition. The problem is further compounded by the inequitable access of the poor to the food that is available. It is therefore necessary to strengthen the public distribution system to overcome this inequity.

Diversion of common and marginal lands to 'economically useful purposes' deprives the poor of a resource base which has traditionally met many of their sustenance needs.

Market forces also lead to the elimination of crops that have traditionally been integral to the diet of the poor, thereby threatening food security and nutritional status.

While conventional economic development leads to the elimination of several traditional occupations, the process of sustainable development, guided by the need to protect and conserve the environment, leads to the creation of new jobs and of opportunities for the reorientation of traditional skills to new occupations.

Women, while continuing to perform their traditional domestic roles' are increasingly involved in earning livelihoods. In many poor households they are often the principal or the sole breadwinners. A major thrust at the policy level is necessary to ensure equity and justice for them.

Literacy and a basic education are essential for enabling the poor to access the benefits offered by development initiatives and market opportunities. Basic education is therefore a precondition for sustainable development.

A sizeable proportion (about 60 per cent according to some estimates) of the population is not integrated into the market economy. Ensuring the security of their livelihoods is an imperative for sustainable development.

Changing Unsustainable Patterns of Consumption and Production

With increasing purchasing power, wasteful consumption linked to market driven consumerism is stressing the resource base of developing countries further. It is important to counter this through education and public awareness.

In several areas, desirable limits and standards for consumption need to be established and applied through appropriate mechanisms including education, incentives and legislation.

Several traditional practices that are sustainable and environment friendly continue to be a regular part of the lives of people in developing countries. These need to be encouraged rather than replaced by more 'modern' but unsustainable practices and technologies.

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controlled. In addition, people are now falling prey to modern diseases such as cancer and AIDS, and stress-related disorders.

Many of the widespread ailments among the poor in developing countries are occupation-related, and are contracted in the course of work done to fulfil the consumption demands of the affluent, both within the country and outside.

The strong relationship between health and the state of the environment in developing countries is becoming increasingly evident. This calls for greater emphasis on preventive and social medicine, and on research in both occupational health and epidemiology.

Because of the close link, there needs to be greater integration between the ministries of Health and Environment, and effective coordination and cooperation between them.

Basic health and educational facilities in developing countries need to be strengthened. The role of public health services must give preventive health care equal emphasis as curative health care. People should be empowered through education and awareness to participate in managing preventive health care related to environmental sanitation and hygiene.

Most developing countries are repositories of a rich tradition of natural resource-based health care. This is under threat, on the one hand from modern mainstream medicine, and on the other from the degradation of the natural resource base. Traditional medicine in combination with modern medicine must be promoted while ensuring conservation of the resource base and effective protection of IPRs of traditional knowledge.

Developing countries should also strive to strengthen the capacity of their health care systems to deliver basic health services and to reduce environment-related health risks by sharing of health awareness and medical expertise globally.

MEANS OF IMPLEMENTATION

Finance

Overseas Development Assistance (ODA) is declining. The commitments made by industrialized countries at the Earth Summit in Rio a decade ago remain largely unmet. This is a cause for concern which has been voiced by several developing countries. Industrialized countries must honour their ODA commitments.

The new instruments and mechanisms, *e.g.*, the Clean Development Mechanism, that are trying to replace ODA need to be examined closely for their implications for the developing countries.

In view of the declining trend in ODA, developing countries must explore how they can finance their sustainable development efforts, such as by introducing a system of ecological taxation.

Private investment cannot replace development aid as it will not reach sectors relevant for the poor. Such investments and other mechanisms can at best be additional to, not replacements for, development assistance.

Conditions attached to financial assistance need to be rigorously scrutinized, and the assistance accepted only if the conditionalities are acceptable. Financial support for sustainable development programmes must not be negatively influenced by political considerations external to the objectives of the assistance.

Trade

Trade regimes, specifically WTO, are sometimes in conflict with sustainable development priorities. Imperatives of trade, and the concerns related to environment, equity and social justice however need to be dealt with independently.

Environmental and social clauses which are implicitly or explicitly part of international agreements must not be used selectively to erect trade barriers against developing countries. Developing countries will suffer a major trade disadvantage if the efforts to put in place globally acceptable Process and Production Methods (PPMs) are successful. Instead, existing disparities between the trade regimes and multilateral environmental agreements, such as those between Trade Related Intellectual Property Rights (TRIPS) regime and the Convention on Biological Diversity (CBD), should be thoroughly addressed. Mechanisms to resolve such conflicts between multilateral agreements should be set up.

Technology

Developing countries need not follow the conventional path to development with regard to technologies but must use to their advantage the cuttingedge technology options now available to 'leapfrog', and put the tools of modern technology to use.

Mechanisms must be put in place to make available to developing countries the latest technologies at reasonable cost.

Technology transfer must be informed by an understanding of its implications in the social, economic and environmental contexts of the receiving societies.

Technologies must be usable by and beneficial to local people. Where possible, existing local technologies must be upgraded and adapted to make them more efficient and useful. Such local adaptations should also lead to the upgradation of local technical skills.

Local innovations and capacity building for developing and managing locally relevant and appropriate technologies must be encouraged and supported.

Children are a valuable asset of every society. It is the responsibility not only of the parents but of the community that children realize their potential fully, growing up in a healthy, enriching and fulfilling environment. Ensuring the provision of such an environment is a major challenge of governance at the local level.

The occupational, cultural and economic heterogeneity of population is on the whole a major asset in making development sustainable; but there are times of crisis when the same heterogeneity can become the basis of conflict and social insecurity. It is imperative to evolve participatory mechanisms of governance involving citizen groups and local authorities which will provide effective means of conflict resolution.

National

Sustainable development is achieved through optimizing gains from several variables, rather than maximizing those from a single one. This requires government departments, by convention sectorally organized, to work together, or in some cases as a single multi-disciplinary authority. For this joint planning, transparency and coordination in implementation are required.

The richness of skills available in society must be harnessed through partnerships involving institutions in civil society, such as NGOs, CBOs, corporate (including private) bodies, academic and research institutions, trade unions, etc., which must be made an integral part of planning and implementation for sustainable development.

There is on the one hand a surfeit of laws, many of them outmoded and irrelevant. On the other hand, effective enforcement is lacking in respect of laws relevant to contemporary concerns and conducive to governance. This calls for a thorough review of laws, elimination of those which are outmoded, and simplification of the procedures for implementing those which are relevant..

Internal reviews as well as learnings from international experience should be the basis of identifying and filling gaps in existing laws. It must, however, be recognized that laws in themselves do not provide solutions, unless there are mechanisms to effectively enforce them.

There are many traditional systems and practices whose value and validity needs to be recognized and brought into the mainstream of governmental development thinking and policy. Appropriate mechanisms for integrating them need to be created.

Many policies were framed either before sustainable development became a major concern or in a sectoral perspective. These need to be reviewed from the point of view of sustainable development. All future policies must be guided by considerations of sustainable development.

Areas lacking policies should be identified and adequate policies compatible with the imperatives of sustainable development framed, taking into account successful examples, of policies and initiatives in similar areas.

International

There is both a need and a scope for regional and global cooperation in development. Some of the areas of common concern are marine and riparian issues, transboundary environmental impacts, management of bioresources, technology sharing and sharing of sustainable development experiences.

Efforts must be made, especially by developing countries, to work towards synergizing experiences and raising shared regional concerns as a strong united front in international forums. Mechanisms must be put in place to facilitate such international exchange of domestic and global experiences in sustainable development.

There must be mechanisms for monitoring the compliance of countries to their obligations under various environmental agreements. Currently there is a multiplicity of institutions with fragmented responsibilities. A better governance regime is required to ensure cooperation and compliance.

Climate Change, Sustainable Development and India: Global and National Concerns

Climate change is one of the most important global environmental challenges facing humanity with implications for food production, natural ecosystems, freshwater supply, health, etc. According to the latest scientific assessment, the earth's climate system has demonstrably changed on both global and regional scales since the preindustrial era. Further evidence shows that most of the warming (of 0.1°C per decade) observed over the last 50 years, is attributable to human activities1. The Intergovernmental Panel on Climate Change (IPCC) projects that the global mean temperature may increase between 1.4 and 5.8 degrees Celsius (C) by 2100. This unprecedented increase is expected to have severe impacts on the global hydrological system, ecosystems, sea level, crop production and related processes. The impact would be particularly severe in the tropical areas, which mainly consist of developing countries, including India.

The climate change issue is part of the larger challenge of sustainable development. As a result, climate policies can be more effective when consistently embedded within broader strategies designed to make national and regional development paths more sustainable. The impact of climate variability and change, climate policy responses, and associated socio-economic development will affect the ability of countries to achieve sustainable development goals.

The pursuit of these goals will in turn affect the opportunities for, and success of, climate policies. In particular, the socio-economic and technological increasing concentration of atmospheric CO2 that is the cause for concern about global climate change.

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The combustion of fossil fuels and other human activities are the primary reasons for increased concentrations of CO2 and other greenhouse gases. Between 1990 and 1999, an estimated 6.3 GtC/year was released due to the combustion of fossil fuels, and another 1.6 GtC/year was released due to the burning of forest vegetation. This was offset by the absorption of 2.3 GtC/year each by growing vegetation and the oceans. This left a balance of 3.3 GtC/year in the atmosphere3. Controlling the release of greenhouse gases from fossil fuel combustion, land-use change and the burning of vegetation are therefore obvious opportunities for reducing greenhouse gas emissions. Reducing greenhouse gas emissions can lessen the projected rate and magnitude of warming and sea level rise. The greater the reductions in emissions and the earlier they are introduced, the smaller and slower the projected warming and the rise in sea levels. Future climate change is thus determined by historic, current and future emissions.

Of the six aforementioned GHGs, CO2 accounted for 63%, methane 24%, nitrous oxide 10%, and the other gases the remaining 3% of the carbon equivalent emissions in 2000. Thus in addition to CO2, global mitigation efforts need to focus on the two largest and rapidly increasing GHGs.

Contribution of Industrialized and Developing Countries

Historically, the industrialized countries have been the primary contributors to emissions of CO2. According to one estimate, industrialized countries are responsible for about 83% of the rise in cumulative fossil fuel related CO2 emissions4 since 1800. In the 1990s, they accounted for about 53% of the 6.3 GtC/year, which was released as CO2 from fossil fuel combustion. These countries have contributed little to the release of CO2 from the burning of vegetation, which is largely due to tropical deforestation during this period. According to another estimate, developing countries accounted for only 37% of cumulative CO2 emissions from industrial sources and land-use change during the period 1900 to 1999 (Figure 1), whereas industrialized countries accounted5 for 63%, but because of their higher population and economic growth rates, the fossilfuel CO2 emissions from developing countries are likely to soon match or exceed those from the industrialized countries.

Large countries, such as China and India, could match the USA's year 2000 greenhouse gas emissions within two to three decades. Figure 2 shows that when fossil fuel CO2 emissions alone are considered, due to population and economic growth in the coming decades, the contribution of developing countries as a group will soon overtake the industrialized countries. Historically, the responsibility for emissions increase lies largely with the industrialized world, though the developing countries are likely to be the source of an increasing proportion of future increases.

Impacts of Climate Change: Implications for Developing Countries

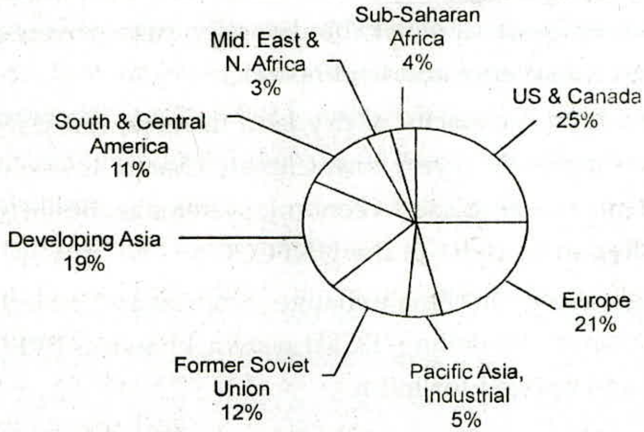

Figure 7. Per cent cumulative global CO2 emissions from industrial sources and land-use change during 1900–1999.

Developing countries are faced with immediate concerns that relate to forest and land degradation, freshwater shortage, food security and air and water pollution. Climate change will exacerbate the impacts of deforestation and other economic pressures, leading to further water shortages, land degradation and desertification. Increasing global temperatures will result in rising sea levels. Populations that inhabit small islands and/or low-lying coastal areas are at particular risk of severe social and economic disruptions from sea-level rise and storm surges that could destroy cities and disrupt large coastal livelihoods.

The widespread retreat of glaciers and icecaps in the 21st century will also lead to higher surface temperatures on land and increasing water stress. By 2025, as much as two-thirds of the world population, much of it in the developing world, may be subjected to moderate to high water stress. Estimates of the effects of climate change on crop yields are predominantly negative for the tropics, even when adaptation and direct effects of CO2 on plant processes are taken into consideration. Ecological productivity and biodiversity will be altered by climate change and sea-level rise, with an increased risk of extinction of some vulnerable species.

Even though the ability to project regional differences in impact is still emerging, the consequences of climate change are projected to be more drastic in the tropical regions. This is true for all sectors that are likely to bear the brunt of climate change – sea level, water resources, ecosystems, crop production, fisheries, and human health.

The populations of the developing world are more vulnerable as their infrastructure is not strong and extensive enough to withstand a deleterious impact.

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- The legacy of colonialism — for example, the developing countries' debt is partly the result of the unjust transfer to them of the debts of the colonizing states, in billions of dollars, at very high interest rates.
- Odious debt, whereby unjust debt is incurred as rich countries loaned dictators or other corrupt leaders when it was known that the money would be wasted. South Africa, for example shortly after freedom from Apartheid had to pay debts incurred by the apartheid regime. In effect, South Africans are paying for their own oppression.
- Mismanaged spending and lending by the West in the 1960s and 70s

In effect, due to enormous debt repayments, the poor are subsidizing the rich. Total debt continues to rise, despite ever-increasing payments, while aid is falling. For example :

- The developing world now spends \$13 on debt repayment for every \$1 it receives in grants.
- For the poorest countries (approximately 60), \$550 billion has been paid in both principal and interest over the last three decades, on \$540bn of loans, and yet there is still a \$523 billion dollar debt burden.

Debt kills : Some 11 million children die each year around the world, due to conditions of poverty and debt. The Heavily In-debt Poor Countries (HIPC) initiative set up in 1996 by the rich nations through the IMF and World Bank calls for the reduction of external debt for the poorest countries through write-offs by official donors.

The IMF and World Bank have actually admitted that the HIPC initiative is backfiring in some cases and are confirming warnings that debt-relief advocates were making even before the scheme was launched. Difficult, and sometimes unfair conditions, are often associated with the initiative.

As well as the admissions by some heads of international financial institutions such as the IMF that their various schemes are not working (as mentioned above), there have been some additional positive actions and decisions. The Jubilee 2000 initiative, for example, has been very beneficial here to raise awareness.

Various G8 Summits have seen promises of billions in debt-write off, but almost hardly are carried out, or contain a lot of spin. For example, a lot of debt relief promised may include moneys previously announced for such purposes, thus creating an impression of enormous write-offs. Bilateral debt relief also does not typically release actual money to be used for other purposes. Multilateral debt relief, however, could.

The structural adjustment measures, global, unregulated free markets and lack of protection for emerging economies all contributed to the global economic and financial crisis in the late 1990s.

The Progress of Nations, 1999 report by UNICEF, suggests that debt is killing children. It is pointed out that as countries are diverting resources away from social provisions to repay debt, those most affected are the poor, especially women and children. UNICEF's 2000 report says 30,000 children die each day due to poverty. That is just under 11 million children each year.

At first glance, it may seem like separate issues, but environment issues and poverty/debt are very much related. Basically, the more the developing countries stay in debt, the more they will feel that they need to milk the earth's resources for the hard cash they can bring in, and also cut back on social, health, environmental conservation, employment and other important programs.

Responding to environmental disasters is also made more difficult when the affected countries are in severe debt. Examples include Honduras and Nicaragua, where Hurricane Mitch devastated large parts of those countries, as well as Mozambique and Madagascar where floods have made hundreds of thousands of people homeless.

Tackling debt-related issues would also therefore indirectly help address environmental and other issues as well.

1.6 ECONOMIC DEVELOPMENT IN INDIA

The first questions that come to the mind when "economic development" is invoked are: What is development? What makes it happen? Most people tend to think of economic development as the features that characterize the developed regions of today, *i.e.*, Western Europe and North America, where the majority of people are perceived to enjoy a high standard of living with access to housing, education, health care, employment and leisure activities. This is one way of seeing development, but the determinants of economic development are still far from being completely identified and understood and there are a lot of views held, some of them contradictory, even among economists.

Evolution of Economic Philosophy on Development

Though, India can boast of having given birth to one of the first widely read economists of the world, Chanakya (350-283 BC), the author of Arthashastra, who laid out the principles of income generation, mode of governance and sustainable development, what Indian students study in universities today as 'economic development' is essentially a subject that has been developed in Europe, initially for the European context.

How does development happen? This was the central question asked by one of the founding fathers of modern economic philosophy, Adam Smith, the author of the treatise The Wealth of Nations published in 1776. Smith proposed that it is the invisible hand of the market that guides the developmental trajectory of a country. He argued that if the demand for products and consumer willingness to pay for quality is effectively transmitted to producers through efficiently organized markets then it will lead to an optimal allocation of resources. The role of the state is, therefore, relegated to the management of public services like education, infrastructure, healthcare, courts of justice, national security etc. through the collection of taxes. Such an optimistic view of the functioning of the market was later refined by a series of economists, two of whom are most noteworthy, Keynes and Marx, who argued for a stronger and direct role of the state in the economy. However, a common point of the works of all these economists is their notion of economic development as a Euro-centric phenomenon.

The transposition of this notion of economic development during the 18th, 19th and mid 20th to the Third World, which was largely colonized by one or the other of the European powers, amounted to the policy of "don't kill the goose that lays the golden eggs". In other words, for nearly 170 years, till the end of World War II, economic development of the Third World, referred to the optimal management of imperialism, so that the investment of the Colonial State in the colony is just enough to ensure maximal returns from the production or extraction industries in the colony. It must be openly acknowledged that such a strategy led to investment in education, social empowerment, and infrastructure, both physical and institutional (transport, health, justice), in the colonies, doing a lot of good and improving welfare, but it must not be forgotten that such improvements took place under an imperialist regime, where the foreign Colonial state enjoyed economic returns at costs substantially lower than that dictated by the free market.

Thus, the theory of economic development, as we study it today, starts from the decolonisation period, *i.e.*, from the end of Second World War and I propose to present its evolution in four phases.

Phase 1: Debate on what is economic development (1945-1965)

The period of the two world wars and the decade following it, not only witnessed decolonisation and the birth of nation-states in Asia and Latin America, but enormous social upheavals within Europe. Accompanied with much soul searching on the mighty hand of technology (the Atomic bomb), the most cruelly and systematically organized genocide drives in history (concentration camps to exterminate Jews), the division of Europe between East and West, etc. the reconstruction was also accompanied by an incredible gender transformation of the labour market.

Women, who had to enter the educational institutions, the government offices and the factories to run the economies during war time, were there to stay, at least in some measure, in the labour markets. Thus, it is not surprising that the notion of economic development also changed radically during this period. During the initial discussions on what constituted development and how development should be supported, there were broadly two schools of thought.

The first school, usually referred to as the neo-classical school, focussed on 'revenue generation', either as gross national income or per capita income. It was noticed that developed countries usually had relatively higher total national income and per capita income and that the structure of their economy and trade exhibited certain common characteristics. For example, developed countries usually had a strong manufacturing sector and the manufacturing sector along with the service sector employed more than 60 per cent of the work force, whereas over 60 per cent of the workforce was engaged in agriculture and in the rural areas in developing countries. Developed countries, for the most part, exported and imported a variety of goods, while developing countries mainly exported primary goods, *i.e.*, agricultural products or natural resources and imported finished goods. The central hypothesis put forward by this school was that any policy that increased national income and even more importantly per capita national income, would automatically initiate in its wake the accompanying processes that pushed the country into a trajectory of growth and development.

The second school, loosely referred to as the structuralist school, considered the 'capacity to generate revenue' as the prime indicator of development. In any economy, the capacity to generate revenue is determined by socio-economic parameters such as the literacy rate, life expectations and mortality rate and this meant that the focus was on a larger set of variables.

The advantage of the first approach is its focus on a small set of variables on which there are well established macroeconomics theories, each theory supported by a particular ideological stance on the role of the State and the market. The advantage of the second approach is that it seems more rational and more humane to think the 'human dimension' rather than simply focus on national income. However, there can be no clear theories on how to increase the literacy rate or bring down the mortality rate, other than by direct investment in the education and health sectors. Where is economic policy then supposed to focus: literacy, health, any other variable? What constitutes an optimal allocation of resources?

Phase 2: Debate on merits of different approaches (1965-1980)

During the following decade, a real cleavage began to develop between the two schools and each position began to be associated strongly with an ideological stance, the neoclassical with the right wing and the structuralist with the left wing. So the essence of the argument was the following: Should we put money in sectors that were growing the fastest in an economy so that national income is maximized or should we invest in increasing the capacity to grow by investing in infrastructure that improves the productivity of workers? Should we focus on improving exports by investing in sectors that exhibit a comparative advantage, *e.g.*, primary products or raw materials and unfinished goods? Or should we try to improve productivity in all sectors? There were also heated debates on the degree and nature of government intervention. Many questions were raised on whether markets were sufficient to induce poverty alleviation even if they allocated resources efficiently. India was among the set of countries that largely accepted the structuralist way of thinking and opted for strong State intervention in the allocation of resources as will be detailed later.

Phase 3: Shift of debate: Which variables impact development the most? (1980-1995)

By the end of the 1970s though some economists and policy makers argued for one or the other approaches as being better than the other on ideological grounds, a majority recognized the need for a two-pronged approach or a mixed strategy. This mixed strategy called for application, on the one hand, of standard economic theory to boost supply and demand with more or less direct state intervention depending on the context under question, and on the other hand, an exploration of variables that impact the capacity to produce. This called into question the optimal role of exogenous variables like geography; variables which are fixed in the short run and therefore could be considered exogenous in the short run like social norms, culture, etc. and endogenous variables like mode of governance, institutions, regulations, international conventions, expectations etc. The debate then shifted to which variables impact national income in the short run and/or the capacity to increase national income in the medium run and how it occurs.

Phase 4: Slow consensus on strategic foundations of development process (1995-today)

While the nature of the variables that impact development is still a matter of ongoing research, in terms of ideology, during this period the distinction between practice and theory began to blur, due to a series of world events such as the adoption of liberalisation and market capitalism by China, even under the ideological umbrella of communism, the adoption of capitalism by the former Soviet Union, the fall of the Berlin Wall and the breaking up of Eastern Europe.

An entirely new set of opportunities and problems also came to be highlighted with a steady stream of incremental innovations and a few radical technological and regulatory innovations in knowledge intensive sectors that provoked profound changes in the mode of production. Some of these are described as follows :

- *World-wide harmonisation of regulation (trade and intellectual property rights) and cost-reducing innovations in transport:* Both these factors have led to a phenomenon referred to as 'globalisation of production' which means that the variety of markets from which inputs can be procured and in which outputs can be sold has increased exponentially. Thus, the division of labour within/between firms and the complexity of the production system of firms have increased greatly. While globalisation has increased employment and income, it has also generated a set of losers in the game. Given that the redistributive mechanisms are not efficient, this has created new marginalized groups.

- *Digitalisation:* The digitalisation of information and the opening of the internet economy has changed the mode of communication within organizations and between organizations, and thereby the mode of production in many sectors. For instance, this conference has been made possible because of communications between the partners via skype and email. Such an organization would not have been possible 20 years back!
- *Innovations in the food, health and environment sectors:* Biotechnology, by permitting the creation of new plant varieties and new drugs through rational design, has opened limitless possibilities (in theory) for the creation of new products through the manipulation of living cells. Nanotechnology promises similar dreams from inorganic matter.
- *Global environmental problems:* Freak weather, global warming, water pollution, water pollution, access to water, waste management, risks posed by the biotechnology and nanotechnology are all considered to be as important or even more important than traditional development problems such as poverty. If we do not find solutions, we are putting the lives of our grand children and great-grand children in great peril.

In the above context, the pressing problems of today combine with old problems like poverty with a new perception of other complementary problems like food security, health and environmental and empowerment. Even as globalisation marches on relentlessly, there is an increasing focus on the 'local context' as the unit of analysis for understanding and policy impact, because of the enormous heterogeneity of problems within the same nation or region. As focus shifts from a universal domain to a specific context, it is very clear there can be no ideology that is universally optimal for all contexts. A solution has to be designed differently for each context depending on the objective desired. Given the context, the objective and the constraints at hand, in terms of resources and a calendar, the solution can call for more or less direct intervention by the state, and a change of regulatory norms. This also means that the agents constituting and giving life to this system, their objectives and possible strategic actions are clearly identified. In this case there is no single most important economic actor since the outcomes of the actions of the different economic actors are interdependent, though some may be more powerful or have a better bargaining position than others. The state has an important role but it is not the only significant economic actor that is responsible for the outcome of development.

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Indicators of Economic Development

Initially the providers of data on the economy were public agencies. Additional national and international agencies were set up during the post-second world war for comprehensive data collection on developing countries. Currently, the most widely used indicators at the international level are those provided by the World Bank and the United Nations Development Programme (UNDP). At the national level in India, we have the Economic Survey published annually by the Government of India and the surveys undertaken by the Central Statistical Organisation of India (CSO). Various other public and private organizations also exist for the collection of data at a sectoral level.

A recent phenomenon of the internet age is the booming market for information. Now there are innumerous private organization that conduct surveys of all sorts and sell the information as a tool for strategy formulation to firms, NGOs, academics and public agencies through the internet.

There are also journals and reports by NGOs of all kinds flooding the internet on technological and economic problems that is absolutely free. A major problem with such information is that there is no standardization or peer review and therefore the credibility of such sources is not evident.

To conclude, the market for information is now supplied by both public and private organizations for a variety of prices depending on the type of market involved.

Let us now come to the information products, namely the indicators. Indicators of development evolved along with the evolution of the economic philosophy on development. The first indicators focused only on economic and demographic variables such as income, population, per capita income, value generated by different industrial sectors, employment in different industrial sectors etc. and tried to relate structural features to income growth.

Then as definitions of development embraced the capacity to generate income, information on other indicators of development such as consumption poverty, mortality rates and literacy rates began to be gathered. These were eventually included by the UNDP in an indicator called the Human Development Index developed by the Nobel Prize laureate Amartya Sen in collaboration with a set of other economists.

Alongside, right from the 1980s an extensive literature on the mathematical and statistical properties of indicators began to emerge. Questions were also posed on the value of the indicators. For instance, there were questions about "what is meant by literacy?" and whether having finished school is sufficient proof of being literate. For instance, in the US, there are students who have left school and still cannot read or write. Then there is the question of 'functional literacy' *i.e.*, having the minimum amount of thinking skills. I have been to schools in slums where 8-10 year olds when asked to draw something, just anything, simply stare at a piece of paper. Should the ability to read and write be considered enough for literacy in the absence of minimum analytical and creative capabilities?

Finally, as analysis of development became more context-based, indicators began to develop on specific developmental targets. In 1996 the 'Development Assistance Committee' of the Organisation for Economic Cooperation and Development (OECD) published a document on International Development Goals that stirred a lot of interest. Pushed by some extremely dedicated individuals, these were eventually adopted by the UNDP in the UN Millennium Declaration introduced in the first UN Millennium Summit in September 2000 that attracted the largest number of world leaders in history.

The UN Millennium Declaration proposes eight essential objectives, referred to as the Millennium Development Goals or MDG to be attained by 2015. It consists of eight goals: eradication of extreme poverty and hunger; universal primary education, gender equality and empowerment of women; reduction of child mortality, improvement of maternal health, combat of HIV/AIDS, malaria and other diseases, environmental sustainability and a global partnership for development. To realize these goals there are 18 specific targets and 48 indicators measure the level of attainment of the MDGs. For the first time in our history, a set of well defined goals, understandable to all, was adopted jointly by the world communities.

The MDG embodies the entire evolution of the economic philosophy on indicators of development, and at the same time, represents a clear break with the past in some ways. First, it includes standard revenue indicators (goal 1 on reduction of poverty and hunger), along with variables that impact the capacity to produce even in the short run (goals 2 to 5 that deal with education, health and empowerment). Second, it also recognizes institutional and cultural variables that impact development (goals 6, 7 and 8 that deal with HIV, environmental security and international partnerships). Third, for the first time policy is set in a managerial mode to achieve a set of targets within a specified time framework. Fourth, again for the first time in history, a global public policy is agreed upon by so many countries. Fifth, it recognizes that development is a game in which NGOs, civic society associations and citizens must also participate.

Nevertheless, four major problems have already been noted with the MDG indicators :

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- *Immeasurable indicators:* For example for goal 6, the target is to have halted by 2015 and the incidence of HIV, malaria and other major diseases such as tuberculosis and begun to reverse the trend. But it is not even possible to measure the incidence of diseases such as tuberculosis because the gestation period varies. Therefore, it is not possible to plan a strategy to reduce incidence of disease by 50 per cent when the incidence of the disease is not known.
- *Lack of data:* There is no comprehensive data on most goals. It is difficult to know exactly where a country stands with respect to the MDG, and plan a strategy. For example, one of the targets for goal 7 on environmental security is to halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation. But in most developing countries, including India, comprehensive data on access to toilets in rural areas or urban slums is not available. Therefore, data collection must precede strategy formulation.
- *Translation into a rational resource allocation strategy:* Even if we had complete information on the MDG indicators it is not clear how resources should be allocated to achieve them as the different goals compete with one another for resources, even when they are interlinked. It must be noted that resource allocation by politicians takes place in a game, where the first and foremost objective of the politician is to be re-elected. Of course, it helps to have contributed to visible development but what would help more for re-election? Visible investment in roads, technology parks or software companies or invisible investment on schools, toilets and hospitals? It is a difficult choice..

INDIA'S DEVELOPMENTAL PPATH

The trajectory of India's developmental path since independence has at least three distinct phases.

1947-1980: When India attained independence in 1947, the first concern of its policy makers was to invest and create capacity in heavy industries such as power, iron and steel, machinery production and chemicals. In other words, the need of the ho: r was to develop the capital goods industry that would form the foundation of industrialization. The private sector was left to cater to the demand for consumer durables and non-durables. However, the government helped create industrial competence in two ways. It invested in the creation of a network of public universities and institutes for advanced research to supply qualified labour to the private sector and public sector enterprises. Furthermore, in a foot-dragging imitation of what policy makers in Japan, China, Southern Europe and USSR had adopted long back, the patent system inherited from the British was changed in the Indian Patent Act to 1970 to recognize only process patents for food, medicine and chemical processes. This policy experiment resulted in the exponential growth of firms in the pharmaceutical sector and the successful adoption of the Green Revolution as well the as the creation of many new hybrid plant varieties.

At the same time, Indian industry grew under severe regulatory constraints in order to maximize poverty alleviation and access facilitation of essentials to the poor. The Indian government presided over what was in many respects a 'closed command economy' as distinct from an 'open market economy'. Five major industrial policies discouraged foreign direct investment, permitted the emergence of Indian industry while channelling the business vision of Indian firms towards very short run profits with the least R&D investment. First, ceilings were set on the overall profits of companies in many sectors. Second, the FERA (Foreign Exchange Regulation Act of 1973) restricted foreign equity holdings. Third, the MRTP (Monopolistic and Restrictive Trade Practices Act of 1969) while attempting to ensure against undue concentration of market power also put a brake on the growth of firms. Four, a 'license Raj' (or rule of the license regime) stipulated that licences had to be obtained from the concerned ministries for any expansion in the manufacturing base, imports and exports. In such a context, industrialists were deeply involved with getting permits, licenses, and quotas and clamouring for fiscal and customs duty concessions for themselves rather than formulating strategies for innovation or growth. Five, final market prices were controlled in a number of non-luxury goods sectors, such as pharmaceuticals in order to facilitate accessibility to the poor.

Indian science also evolved by leaps and bounds and became the pride of India, as it successfully developed the nuclear bomb, satellites and the super computer. Furthermore, Indian policy makers initiated the most extensive and intensive program of positive discrimination in public (educational, research and administration) institutions by introducing reservations by quotas for citizens belonging to backward castes. This in turn fuelled a competition for attaining the label of 'backward castes' among various population groups and led to a hierarchy of 'backward caste' identities (such as backward caste, very backward caste, tribal, etc.) with associated benefits. It also provided an additional populist instrument for politicians to mobilize votes and the scope of reservations steadily increased over the years.

This has had both a positive and negative impact. The positive impact is to incorporate a large number of the backward caste community into academic and research institutions as well as all public offices, which might have been much slower through standard competitive selection processes. The negative effect is an increased marginalization of those who cannot qualify for being a backward

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caste member and who do not have enough money to enter into expensive private schools or who do not have the intellectual capital to enter into the elite poles of excellence in India (that are mostly based on merit) or leave India for the US or UK (where caste is not recognized as a criterion for entry into a university).

1980-1990: This can be considered as the period of strategic positioning of different power groups in India without much change in the economic philosophy. Political parties, industries, academic institutions and civic associations matured. It was increasingly felt that the free market should be promoted more within India, while the fight on poverty continued. This change of mood owed a great deal to happenings outside of India. The communist ideology that had earlier sustained Russia, Eastern Europe and China gave way to pragmatic capitalism in various degrees. The Berlin wall came down and Eastern Europe broke up. China emerged as an interesting case study of a pragmatic adoption of capitalism combined with continuing redistribution of wealth and ruthless authoritarianism.

1990-2007: India embraced economic reform and started introducing liberalisation policies from 1991. Industrial licenses for expansion of the manufacturing base were abolished. Government regulation via manufacturing and marketing licenses only served to monitor the quality and safety of the final products arriving in the market. Price control was eased in many cases, including drugs. Procedures to obtain foreign technology agreement (FTA), imports and exports were greatly streamlined and 100 per cent foreign ownership was permitted in most sectors. Excise duty was slashed on imports, while a value added tax was added on domestic product. In order to maximize the gains from globalization and promote its exports, India signed the Uruguay round of GATT, which concluded in 1994, to become a member of the World Trade Organization (WTO). India was thereby obliged to meet all provisions of the Trade Related Aspects of Intellectual Property Rights (TRIPs) by 2005 including a return to a uniform product patent regime in all manufacturing sectors.

Though at the time of initiation, the New Industrial Policy invited a lot of criticism, history has proved its usefulness. Production, exports and imports have increased greatly in many sectors. Between 1991 and 1999, the proportion of the population under the poverty line decreased from 37.5 per cent (using headcount of consumption poverty) to 26.1 per cent when the population itself was growing at 1.5 per cent and the gross domestic product has grown at 4 per cent or more since 2000. TRIPS has also been viewed with a jaundiced eye by many in India and other developing countries. Its protagonists claim that it will stimulate foreign direct investment, investment in R&D and lower prices through increasing market supply. Others point out that foreign direct investment is not increasing much because of infrastructural problems, shortcomings of the Indian business environment and low market prices needed to ensure accessibility. Indian pharmaceutical and software firms continue to boost national pride as they venture more into international markets and establish production and R&D bases in the US and Europe.

Where is India with Respect to MDGs?

The Indian government has confirmed that the attainment of the MDG is a national priority, but it has not taken any clear steps in terms of investment allocation towards this end. There are a number of national programmes that touch upon each of the MDG goals but implementation, delivery and accessibility remain the weak points. However, this is not just an Indian problem. In September 2005, the United Nations hosted a Millennium+5 Summit to evaluate the progress towards MDG and it became evident that many governments had no clear ideas on strategies to attain the MDG. One major problem seems to be a lack of data.

Some preliminary results on India's progress in attaining the MDG are presented in Bajpai and Goyal (2004) and Bajpai, Sachs, Volavka (2005). According to them India is on track for poverty reduction, providing access to potable water (both urban and rural) and urban sanitation. However, they demonstrate that urban areas in India are in a better position than rural ones with respect to most of the targets including poverty. A worrying matter for empowerment of women is that all states except Kerala, the ratio of females to males is less than 1, indicating a clear anomaly.

1.7 DEVELOPMENT STRATEGIES

The theory of undcrdcvelopnlcnt was first propounded by Latin American writers to csplain the ccononiic and political backwardness of Latin American societies, which became independent from Spanish or Portuguese rule during the third decade of the 19th century. Despite their political independence for more than 150 years, their democracy, modernization and national state remained underdeveloped and they continued as semi colonial dependencies of imperial countries suffering from retarded economic development.

According to Andre Gunder Frank, underdevelopment of Latin American countries in the past as well as some Afro-Asian countries found themselves after their political decolonisation.

The fact is that underdevelopment, like development, is also a moden phenomenon. The underdevelopment of the colonies, semi colonies and neocolonies and development of the metropolitan centres of imperialism are related both as parts of the historical process and through the mutual impact they would continue to exercise in the present as well as the future. Paul Baran has argued that underdevelopment is organically and systematically associated with colonisation, political dominance and exploiter-exploited relationship in the economic sphere.

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The concept of economic surplus is crucial for the study of development and underdevelopment. Economic surplus may be defined as the actual or potential excess of a social unit's production which may or may not be invested or exploited. In the present context what is important is not the sacrifice of the loser nation in terms of its actual loss of income or wealth or the absolute gain of the recipient country but the contribution to economic surplus accruing to the imperialist country from the colony. It is the loss of present and pomtial capital for the colony.

While the peripheral societies are denied the development possibilities of this capital, the metropolitan imperial country can use it for its own economic development. The satellite country's contribution may be great or small in quantity, but the associated sacrifice in terms of underdevelopment for the colony, semi colony or neocolony can readily be much larger. While the imperialist gain a pound of flesh, the dependency may lose ten or twenty times more. Thus, the colony may lose resources, its essential irrigation system, or its civilization or even its physical existence. Many Native American tribes and nationalities were wiped out when the Europeans colonized America, through genocide. Thus development and underdevelopment are not the summation only of economic quantities. They are their cumulation and the whole social structure and process which determines that accumulation.

It is obvious that the incorporation of the underdeveloped countries in the international capitalist system keeps them permanently underdeveloped. This contribution of imperialism and capitalism to the underdevelopment of underdeveloped areas continues even now. It is not so much the resources that the United State draws out of Latin America, as it is the use of her economic, political and military power to keep the structure of underdevelopment in these countries in the economic, political, social, cultural and even military spheres.

This structure of underdevelopment imposes on them mass poverty, loss of political freedom, loss of culture, loss of current production, infant mortality, starvation for the disadvantaged groups, disease and epidemics. The continuous drain of potential capital plays a critical role in the economy of all satellite countries as well as the imperialist economy. The drain of wealth from India and other colonies by Britain promoted the growth of de-industrialization in India and its other colonies. The African slave trade benefited European traders and plantation-owners in America but damaged the economies of many countries in West and Central Africa. No wonder that South Asia and Sub-Saharan Africa even now have the lowest per capita income in the whole world.

The control exercised by the multinationals or strategic sectors plays a crucial role in preserving the pattern of underdevelopment. One example has been the extraction of mineral resources from underdeveloped countries. Another was extraction of oil and its distribution. Examples may change from time to time. The most critical sector has been that of foreign trade, which is usually controlled by the dominant country in its dependency.

The domination over a sector by the bourgeois class and the state bureaucracy is sufficient to keep a dependency underdeveloped indefinitely and to aggravate its underdevelopment in future. The bourgeois classes of several Afro-Asian and Latin American countries are highly dependent on the economic power of the multinations and political power of the governments of advanced capitalist countries. The ruling elites of the underdeveloped countries, therefore, have a vested interest in preserving indefinitely the system and pattern of underdevelopment. The supposed independence of many Afro-Asian and Latin American nations in thus a convenient fiction.

Classical Capitalist Model of Development

At the daw of the 21st century, we find capitalism as the dominant model of development which has successfully overcome challenges posed by socialism as an alternative strategy of development. The industrialization of England was the first successful model of capitalist development. This was accomplished between 1760 and 1820. It was based on free enterprise within and monopophy trade in the colonies, often accompanied by direct plunder of the colonial resources. The other countries, which followed this model with some local variations were France, Holland, the United States, Germany, Italy and later Japan.

The political history of capitalist systems has followed neither a simple nor a linear path of development. Capitalist development reflects a contradiction between the requirements of capital accumulation and the needs of political legitimation. This contradiction was sought to be resolved through six different stages of capitalist growth requiring six successive state formations.

According to Alan Wolfe, the ***Accumulative State*** corresponded to the first wave of capitalism industrialization. It made accumulation its own mechanism of legitimation. Since any means needed to achieve the accumulation of wealth was justified: the Accumulative State was not committed to laissez faire ideologically. It promoted govenment intervention to define the parameters of the emerging system of production, to preserve discipline among the workers, to adjust macroeconomic conditions, to fight colonial wars, to pursue capitalist interests, to provide subsidies to capitalists, and to support miscellaneous ecclectic activities.

When the crisis of accumulation grew, Adam Smith and Ricardo talked of the ***Harmonious State*** and harmony as the essential elements of capitalist production. Freedom of the market, they said, reconciled the interests of the producers with those of the consumers and the interests of the capitalists with those of the workers. This assumption was internally inconsistent, led to Social Darvinism and failed as a legitimation mechanism.

The ***Expansionist State*** characterized the third phase of capitalist development. Although an imperialist policy of expansion carried out in the interest of finance capital seemed to relieve domestic pressures from the working class, expansionism meant the erosion of classical liberalism. The end of free trade, unrestricted immigration aid export of capital to colonies and semi colonies were accompanied by indoctrination and control of workers through education and mass culture. The World War I put an end to this phase of capitalist imperialism.

The ***Franchise State*** characterized the fourth phase of capitalist development. It tried to regularise conflicts between classes and strata by delegating public power to private bdies. This reflected a pluralist dispersal of power. The capitalist state of 'pluralist democracy' was supposed to give away power, not to exercise it.

This was mystification. The franchise state declined by the end of World War II. Private interest groups failed to regulate themselves effectively. Economic planning in European countries and military spending in the United States led these states to assume enomous powers.

The ***Dual State*** came into existence during the fifth stage of capitalist development. This state created two parallel structures, one charged with keeping order through repression and the other with presenting a democratic facade. Capitalism at this stage functioned through a diarchy-one arm being the military bureaucratic apparatus aid the other arm, more visible to the public eye, constituting the electoral parliamentary mechanism.

The ***Trans-national State*** characterizes the sixth and present stage of capitalist development which is dominated by the rise of multinational corporations. It is the product of internationalization of capital and globalization of the market. However, this development did not transcend the problems of nation-state because multinational corporations needed government aid in a manner not seal earlier in the history of capitalist development. During this phase, the World Bank, the International Monetary Fund and now the World Trade Organisation have emerged to regulate the world economy and the world market.

Neo-liberalism with its slogans of globalizations. liberalization and privatization is the new credo of triumphant, transnational capitalism. However, each of the six stages of capitalism have failed to resolve the tensions between the requirements of accumulation and the needs of legitimation. Despite the fall of

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Soviet-style socialism, late capitalism has yet to prove its rationality as a world-wide strategy for economic growth.

SOVIET-STYLE SOCIALISM

Marxism-Leninism was the official ideology and the guiding strategy of development in the former Soviet Union and other Soviet-style socialist states of eastern and central Europe. It attempted to change the socio-economic basis of the pre-existing system by abolishing the capitalist mode of production itself.

Marxism aimed at the destruction of the capitalist system, through a revolutionary class struggle of the working class in alliance with the oppressed peasantry, culminating in a socialist revolution and dictatorship of the proletariat led by the Communist Party.

However, no advanced country of the west succumbed to a socialist revolution of Marx's vision. Revolution did occur in Russia which was relatively a less developed capitalist country at that time. After the defeat of the Nazi Germany in World War II, Soviet-style socialism, minus collectivization of agriculture, was imposed upon the "People's Democracies" of eastern and central Europe. China and some neighbouring Asian countries and later Cuba also carried out their socialist revolutions.

Socialist systems in the Soviet Union and other allied countries provided for public or state ownership of all major sectors of the economy. Internal and external market was strictly controlled. The Soviet-style economy was based on comprehensive planning of national resources through successive Five Year Plans. All sectors such as industry, agriculture, trade, banking, transport and communications were brought under centralized planning.

Due to international isolation of Soviet Russia, centralized planning emphasized the development of heavy industry such as steel, machines and armaments. The planned economy was free from capitalist-style slumps and recessions registered a rapid rate of economic growth. The trade agreements were largely restricted to the socialist bloc but after 1960, China was excluded from these, which opted out from the Soviet block of socialist nations.

Agriculture was collectivized in the Soviet Union but not in other East European countries. It formed a smaller sector of the economy but absorbed a relatively larger labour force. The state largely controlled production and distribution of consumer goods. Labour unions were official state agencies and the workers' councils played a limited role in decision-waking.

The political system of socialist countries was based on democratic centralism and the dictatorship of a single political party or an alliance of parties led by the Communist Party. The Marxist-Leninist Party determined the goals and strategy of development. Strong one-party system dictated all interest articulation and aggregation. Discipline and centralization were the guiding principles of industrial management and administration.

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Economic surplus was obtained for investment by denying the people necessary consumption goods. All social strata, particularly the peasants, helped the Soviet state to accumulate capital for rapid industrialization. World War II destroyed lives and properties on a huge scale. The Soviet Union and other Socialist countries were denied assistance by the United States under the Marshall Plan for post-war rehabilitation. The Cold War compelled them to allocate large funds for defense.

Despite, threats of invasion from capitalist countries and destruction caused by war, the Soviet Union did succeed in achieving rapid economic growth both in the Stalinist and post-Stalin periods till 1970. Planned socialist economy did enable Soviet Russia to emerge as a second super-power in the world. Soviet style socialism also transformed the relatively backward economies of some east European countries into industrial societies.

Communist China also emulated the Soviet-style economic planning immediately after its successful revolution in 1949 till 1956. Many states in the Third world like India under Nehru, Egypt under Nasser and Indonesia under Soekarno experimented with state capitalism and creation of a larger public sector mainly under Soviet inspiration.

Though the Soviet strategy of economic development could avoid capitalist style slumps and recessions for a long time, it ultimately succumbed to the evils of stagnation and excessive militarization. Gorbachev tried to reform the Soviet system through glasnost (openness) and perestroika (restructuring) but paved the way for disintegration of the Soviet Union and restoration of capitalism in Russia and other seceding republics. Other countries of Eastern Europe also succumbed to capitalism counter-revolution. This signified the failure of Soviet-style socialism all over Europe.

THE CHINESE STRATEGY OF DEVELOPMENT

The Chinese model of economic growth is both a study in contrast and comparison with the Soviet-style development. The Soviet Union had a proletarian revolution under Lenin and straightway proceeded towards socialization of its economy through nationalization of its industry, banking, trade, transport and communication. Agriculture was collectivized under Stalin. The centralized, command economy continued, through its successive Five Year Plans, till its final fall in 1991 with the disintegration of the Soviet Union.

Mao Zedong's revolution in China, which took place in 1949, was called 'new-democratic'. It permitted national and petty-bourgeoisie classes to participate in China's economic development till 1954. During this period, a radical land reform was carried out which abolished ownership of land by feudal landlords and redistributed it among the tillers of the soil. Mao, thereafter, favoured a continued revolution towards socialism. As a result, the Chinese peasants were soon regrouped into co-operatives and collectives.

The aims of the First Five Year Plan (1 953-1957) were to lay the foundations of a comprehensive industrial structure at a rapid pace. Priority of investment funds (over 50 percent) was given to the capital goods sector. Relatively less importance was given to the growth of the consumer goods. Agriculture was given only 6.2 percent and left largely for private initiative by peasants. The Soviet Union gave the required help in technology and expertise.

According to Ashbook, the Chinese Communists did not start large-scale mechanization of agriculture during the First Five Year Plan period. This was a correct strategy. It was first necessary to expand the industrial base. By the end of the First Five Year Plan period, China had achieved a considerable momentum in economic development.

The Great Leap Forward of 1958 and the Crisis Years of 1958- 1961 saw the creation of the Communes and the industrial policy of 'walking on two legs' which meant the simultaneous development of small and large industry and the simultaneous use of indigenous techniques and modern methods.

The 'People's Communes' were not only a new administrative unit, they were also an exercise in agrarian socialism. They arose out of the merger of cooperatives. 90 percent of peasant households were grouped into Communes by September 1958 all over China. The Great Leap Forward, which encouraged the establishment of steel foundries in every town or village, proved an incorrect strategy of economic growth. National calamities such as floods and famine which according to Amartya Sen killed millions of people, withdrawal of Soviet economic assistance and serious organisational problems in the Communes paralysed the Chinese economy during the Crisis Years of 1958-1961. As a result, the Chinese economic growth slowed down considerably. Consequently, a new economic policy was adopted by the Chinese leadership which was described as 'market-socialism'.

The Chinese leadership recognised that the experiment of the 'People's Communes' had failed because it was trying to skip necessary historical stages in development. The Second Five Year Plan period was marked by a serious economic depression in the first three years and a policy of readjustment during the next two years. Then followed three years (1963-65) of further readjustment. This was regarded as a transitional phase between the Second and Third Five Year Plans.

In 1966 China had successfully readjusted its national economy, had overcome serious economic difficulties and had begun implementing its Third Five Year Plan. Just then, Mao Zedong began his "Cultural Revolution". According to Deng Xiaoping, it was not a revolution at all. It was an internal disorder that damaged China's economic development for a decade.

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Mao Zedong started the Cultural Revolution to prevent the restoration of capitalism in China. He thought that Party leaders like Liu Shaoqi and Deng Xiaoping were 'capitalist roaders' who wanted China to revert to the capitalist past of development. During 1967-68, China's national economy speedily deteriorated in the social chaos created by the Cultural Revolution.

Zliou Enlai continued as Prime Minister and was able to limit the damage to the economy by following pragmatic policies. Post-Mao leadership regards the Cultural Revolution as a period when "Left" mistakes derailed the process of economic development. During this period, national income suffered a loss of 500 billion Yuan, and the living standard of the people declined.

With the passing away of Mao Zedong in 1976 and the suppression of the "gang of four", who were Mao loyalists, power passed in the hands of Deng Xiaoping and the so called "capitalist roaders". The new leadership instituted large scale economic reforms in the direction of what it described as "socialism with Chinese characteristics". In practice, it meant the repudiation of Maoist strategy of development based on early introduction of doctrinaire socialist features in China's economy. It pushed China in the direction of neo-liberal reforms though Deng officially stated that the new strategy of economic growth had no connection with 'bourgeois liberalization.'

The government introduced the "household responsibility system" in agriculture by parceling out the collectively owned land to peasants on a long term lease-hold basis with provisions for the rights of inheritance. This was, in effect, reintroducing privatized agriculture in China through the back-door. However, new system increased agricultural production immensely though it promoted inequality in rural society to some extent. In contrast with Soviet collectivization, family based agriculture in China has proved more productive despite lower level of mechanization.

In the five years between the 12th and the 13th Congress of the Communist Party, China achieved great progress in economic reforms and the opening of the economy to the outside world also began in a big way. Industrial re-structuring was accomplished. Investment in productive and profitable enterprises was increased. Agriculture, energy, resources, transport and communication were given special support. The annual average growth rate of the GNP reached 10 to 11 percent between 1990 and 1999. During this period, China's economy was liberalized and privatized at a rapid pace. This was done through what the Chinese prefer to call "contractual responsibility system" that conferred long lease-hold rights on the recipient of land and property.

China also encouraged investment of foreign capital and gave favourable terms to all foreign investors. Fourteen special zones were created in the coastal provinces where foreign firms were allowed 100 percent equity. Foreign capital entered China in a big way. The Chinese trade also flourished with various foreign countries particularly the United States, Japan and West European countries. Hong Kong and Macao with their capitalist structures have now become parts of China with a guarantee that these will be maintained so for at least 50 years more. Communist China has also promised that Taiwan's capitalist economy will be preserved perpetually whenever it decides to joint the mainland.

In fact, China is rapidly marching towards system, which some critics describe sarcastically as "capitalism with Chinese Charactcristics" where social ownership and socialism are increasingly becoming more legal fictions. The share of the public sector in China's economy has decrcased from 96 pcrcent in 1976 to just 26 pcrcent in 2001. Post-Mao development strategy has largely succeeded in making China an industrial giant and also self-sufficient in the agricultural sphere.

The strength of the Chinese strategy of development consists of the following:

(1) Abolition of land-lordism, the end of the unproductive commune system, establishment of family leasehold farms in agriculture, peasant initiative in rural enterprises encouraged.

(2) Abolition of mass poverty, promotion of education and removal of illiteracy, wide-spread health services, population control with a single child norm.

(3) Economic reforms which have almost liberalized the economy and opened it up to the outside world.

(4) China's policies recognize the importance of market, profitability; competition and integration with the world economy but on its own terms.

(5) Chinese leadership regards China at the primary stage of socialism and it may take more than a century to complete the transition to socialism.

(6) China's development strategy should be based on pragmatic considerations. As Deng said, the cat could be white or black, what is important is that it should be able to catch mice.

According to the IMF criteria of Purchasing Power Parity (PPP), China's GDP is second only to that of the United States, surpassing that of Japan which is in the third place.

The Third World Strategies

The underdeveloped countries of Asia, Africa and even Latin America tried to follow from 1950 to 1970 what Charles Bettelheim has called the state capitalist model though role of the state in their economies varied from country to country.

The purpose was to strengthen the infrastructure and create an independent economic base for which private capital was not forthcoming. The public sector could be as low as 20 percent (Indonesia) or 70 per cent (Algeria).

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However, many developing countries did not follow the state capitalist strategy and did not create any sizable public sector. Most of the Latin American countries like Brazil, Argentina and Chile followed the capitalist model in which foreign capital also played a major role, though foreign capital was not absent in the countries which tried to experiment with the mixed economy model such as Mexico. South-East Asian countries also preferred market based strategy of economic growth. Later, South Korea, Taiwan, Hong Kong and Singapore emerged as the Asian tigers which were Asian showpieces of capitalist development.

According to Paul Baran, the development strategies of the Third World countries show two different kinds of orientations. He maintained that an overwhelming majority of the backward countries are ruled by regimes of a clearly pronounced comprador character and their strategies are also based on what he calls comprador capitalist development. Secondly, he maintained that some underdeveloped countries have governments which have a 'New Deal' orientation such as India, Indonesia, and Burma.

In the first group, he placed the oil-producing countries of the Middle East and Latin America and Afro-Asian and Latin American countries producing valuable minerals and food-stuffs. Many of these countries are ruled by pro-Western dictators who are constrained to pursue development strategy based on comprador capitalism. Baran's characterization of such regimes as comprador is considered dated and inapplicable now.

In the second group, Baran placed 'New-Deal' type regimes where a nationalist bourgeoisie was in power which, in alliance with other exploited classes, was trying to create an independent economic base for the country's all round development. As the pressure for social liberation was not great in these countries, the governments there adopted the strategy of evolving an indigeneous variety of industrial capitalism in which both the public and private sectors would have a co-operative relationship.

However, the New Deal regime is also plagued with certain contradictions. For example, it is unable to offend the landlords and cannot carry out pro-peasant land reform. It cannot interfere with the privileges of the merchants and moneylenders. It is unable to improve the living conditions of the workers, as it cannot antagonize business. Despite its anti-imperialism, it favours foreign capital.

This regime substitutes minor reforms for radical changes, revolutionary words for revolutionary deeds. It is unable to do the battle for industrialisation and unable to mobilize the masses for a decisive assault on the nation's backwardness, poverty, illiteracy or ill-health. The state capitalist model may create new steel plants, set up fertilizer plants, develop hydro-electric power, build oil and gas producing plants etc in the public sector, but the government never nationalizes any private sector industry. However, the private sector is unable to fulfill the role that is expected. Population growth remains unchecked and generally neutralizes cconomic growth in real terms.

Development strategies based on the state capitalist model have now been rejected almost in all developing countries. Neo-liberal economic reforms advocated by thc IMF-World Bank advisers are being implemented at a varying pace almost in all developing countries. The state sector is being dismantled gradually everywhere including India.

China, South Korea, Thailand, Singapore, Malaysia, Indonesia, Philippines and some Latin American countries have achieved considerable success in implementing neo-liberal reforms. In contrast, India is still debating the trickle down effects of its reform programme. With the exception of South Africa, the IMF-World Bank model of growth has not helped the African countries in any appreciable manner. However, the slogans of liberalization, privatization and globalisation have been universally accepted as the guidelines for development by the ruling elites of all developing nations. This is basically a market-oriented, capitalist strategy of economic growth.

2.8 SUMMARY

- Economic development is the increase in the amount of people in a nation's population with sustained growth from a simple, low-income economy to a modern, high-income economy. Its scope includes the process and policies by which a nation improves the economic, political, and social well-being of its people.
- Economic development refers to social and technological progress. It implies a change in the way goods and services are produced, not merely an increase in production achieved using the old methods of production on a wider scale.
- One of the most popular aggregate measures of the quality of life is the individual estimation of one's happiness. Happiness here is defined as the degree to which an individual judges the overall quality of her/his life as-a-whole favorably." In the country of Bhutan, Gross National Happiness (GNH) is the main index for defining the quality of life in a more holistic and psychological term.
- Human development index is a popular quantitative measure of the degree of a country's success in developing its human potential. Its introduction in early 90's was caused by the necessity to find the measure of human progress which is people rather than economic-centred approach.

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- Underdevelopment is the state of a nation (*e.g.*, a country) that has not reached its maturity. It is often used to refer to economic underdevelopment, symptoms of which include lack of access to job opportunities, health care, drinkable water, food, education and housing.
- India embraced economic reform and started introducing liberalisation policies from 1991. Industrial licenses for expansion of the manufacturing base were abolished. Government regulation via manufacturing and marketing licenses only served to monitor the quality and safety of the final products arriving in the market.

2.9 REVIEW QUESTIONS

1. What do you mean by economic development?
2. Dustinguish between economic development and economic growth.
3. What is quality of life?
4. Discuss the features of objective and subjective quality of life.
5. What are the primary characteristics of underdevelopment?
6. Describe the economic development of India.
7. Explain the third world strategies of economic development.

2.10 FURTHER READINGS

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UNIT– III

ECONOMIC PROBLEMS OF GROWTH

STRUCTURE

3.1 LEARNING OBJECTIVES

After going through this unit, students will be able to :

- explain various constraints in the way of economic growth;
- know the problems of economic growth such as poverty, unemployment, inflation and industrial sickness;
- discuss the concept of saving and capital formation.

3.2 INTRODUCTION

India encompasses a wide spectrum of economic activity, ranging from high technology to subsistence farming. It is one of the ten largest manufacturing economies in the world, and indigenous technological achievements extend to fields such as nuclear energy, space and satellite communications, supercomputers, deep sea oil drilling and armaments manufacture. At the same time, three-quarters of its population still depend on agriculture for their livelihood.

The Indian economy has a number of strengths which augur well for the future. Those strengths include a thriving private sector; established financial and legal systems; sound engineering and managerial talent; and a large educated middle class.

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Since the mid-1980s, the thrust of economic policy has been in the direction of deregulation and liberalisation but the balance-of-payments crisis of July 1991 forced the pace of change. Since then, the economy has undergone radical reform. The convertibility of the rupee has been further extended, foreign exchange currency reserves have risen to US$13 billion, inflation has been reduced to about 8 per cent and domestic investment is rising at 10 per cent per year. Foreign investment has increased considerably and the share market is booming.

Inefficiency and low profitability of the large public sector have been a big drain on national resources. The Government has begun to dilute the public sector's involvement in industry and is moving gradually to privatisation. But reforms in this area are proceeding very slowly, as retrenchment has the potential to be a major political and social issue.

3.3 SAVING AND CAPITAL FORMATION

Saving is income not spent, or deferred consumption. Methods of saving include putting money aside in a bank or pension plan. Saving also includes reducing expenditures, such as recurring costs. In terms of personal finance, saving specifies low-risk preservation of money, as in a deposit account, versus investment, wherein risk is higher.

There is some disagreement about what counts as saving. For example, the part of a person's income that is spent on mortgage loan repayments is not spent on present consumption and is therefore saving by the above definition, even though people do not always think of repaying a loan as saving.

Saving is closely related to investment. By not using income to buy consumer goods and services, it is possible for resources to instead be invested by being used to produce fixed capital, such as factories and machinery. Saving can therefore be vital to increase the amount of fixed capital available, which contributes to economic growth.

However, increased saving does not always correspond to increased investment. If savings are stashed in a mattress or otherwise not deposited into a financial intermediary like a bank there is no chance for those savings to be recycled as investment by business. This means that saving may increase without increasing investment, possibly causing a short-fall of demand (a pile-up of inventories, a cut-back of production, employment, and income, and thus a recession) rather than to economic growth. In the short term, if saving falls below investment, it can lead to a growth of aggregate demand and an economic boom. In the long term if saving falls below investment it eventually reduces investment and detracts from future growth. Future growth is made possible by foregoing present consumption to increase investment. However savings kept in a mattress amount to an (interest-free) loan to the government or central bank, who can recycle this loan.

Capital formation is a concept used in macro-economics, national accounts and financial economics. Occasionally it is also used in corporate accounts. It can be defined in three ways :

- It is a specific statistical concept used in national accounts statistics, econometrics and macroeconomics. In that sense, it refers to a measure of the net additions to the (physical) capital stock of a country (or an economic sector) in an accounting interval, or, a measure of the amount by which the total physical capital stock increased during an accounting period. To arrive at this measure, standard valuation principles are used.
- It is used also in economic theory, as a modern general term for capital accumulation, referring to the total "stock of capital" that has been formed, or to the growth of this total capital stock.
- In a much broader or vaguer sense, the term "capital formation" has in more recent times been used in financial economics to refer to savings drives, setting up financial institutions, fiscal measures, public borrowing, development of capital markets, privatization of financial institutions, development of secondary financial markets. In this usage, it refers to any method for increasing the amount of capital owned or under one's control, or any method in utilising or mobilizing capital resources for investment purposes. Thus, capital could be "formed" in the sense of "being brought together for investment purposes" in many different ways. This broadened meaning is not related to the statistical measurement concept nor to the classical understanding of the concept in economic theory.

Gross and Net Capital Formation

In economic statistics and accounts, capital formation can be valued gross, *i.e.*, before deduction of consumption of fixed capital (or "depreciation"), or net, *i.e.*, after deduction of "depreciation" write-offs.

- The gross valuation method views "depreciation" as a portion of the new income or wealth earned or created by the enterprise, and hence as part of the formation of new capital by the enterprise.
- The net valuation method views "depreciation" as the compensation for the cost of replacing fixed equipment used up or worn out, which must be deducted from the total investment volume to obtain a measure of the "real" value of investments; the depreciation write-off compensates and cancels out the loss in capital value of assets used due to wear & tear, obsolescence, etc.

TECHNICAL MEASUREMENT ISSUES

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Capital formation is notoriously difficult to measure statistically, mainly because of the valuation problems involved in establishing what the value of capital assets is. When a fixed asset or inventory is bought, it may be reasonably clear what its market value is, namely the purchaser's price. But as soon as it is bought, its value may change, and it may change even before it is put to use. Things often become more complicated to measure when a new fixed asset is acquired within some kind of lease agreement. Finally, the rate the value of the fixed asset depreciates at affects the gross and net valuation of the asset, and different methods are typically used to value what assets are worth. Capital assets can for instance be valued at :

- historic cost (acquisition cost),
- current replacement cost,
- current sale or resale value,
- average market value,
- business value, assuming a certain profit yield,
- value for tax purposes,
- value for insurance purposes,
- purchasing power parity value,
- scrap value.

A business owner may in fact not even know what his business is "worth" as a going concern, in terms of its current market value. The "book value" of a capital stock may differ greatly from its "market value", and another figure may apply for taxation purposes. The value of capital assets may also be overstated or understated using various legal constructions. For any significant business, how assets are valued makes a big difference to its earnings and thus the correct statement of asset values is a perpetually controversial subject.

During an accounting period, additions may be made to capital assets (including those that disproportionately increase the value of the capital stock) and capital assets are also disposed of; at the same time, physical assets also incur depreciation or Consumption of fixed capital. Also, price inflation may affect the value of the capital stock.

In national accounts, there are additional problems :

- The sales/purchases of one enterprise can be the investment of another enterprise. Therefore, to obtain a measure of the total net capital formation, a system of grossing and netting of capital flows is required. Without this, double counting would occur.

- Capital expenditure must be distinguished from intermediate expenditure and other operating expenditure, but the boundaries are sometimes difficult to draw.
- There exists nowadays a large market in second-hand (used) assets. In principle, statistical measures of gross fixed capital formation are supposed to refer to the net additions of newly produced fixed assets, which enlarge the total stock of fixed capital in the economy. But if a substantial trade occurs in fixed assets resold from one enterprise or one country to another, it may become difficult to know what the real net addition to the stock of fixed capital of a country actually is, to the extent that the precise distinction between "new" and "used" assets is more difficult to draw, and that how to value used assets and their depreciation consistently becomes problematic.

India's Perspective

India has a high savings rate of nearly 25 per cent in the 1990s. The World Bank has identified a high savings rate as one of the common factors in East Asian economic success. The private sector is the dominant contributor to gross savings in the Indian economy. The public sector's contribution to total savings has declined continuously to 1.1 per cent in 1990-91. The Government's large deficit and dissaving reflect a continuing tendency for current spending on public administration, defence, subsidies and interest (on past deficits) to exceed current revenues. The failure of most Public Sector Enterprises (PSEs) to generate profits has further contributed to low government saving.

Gross capital formation as a percentage of GDP reached 27.3 per cent in 1989-90. Despite its low levels of savings, the public sector has maintained its share in total investment. It has been able to do so by borrowing from the private sector. Now that the private sector plays a greater role in financing, it is forced increasingly to rely on overseas funds and recourse to deficit financing.

The gap between savings and gross domestic capital formation has been met by overseas savings (aid, credit and foreign investment). Despite the level of capital formation, poor returns on public sector investment have restrained India's growth performance.

3.4 INFLATION

In economics, inflation is a rise in the general level of prices of goods and services in an economy over a period of time. When the price level rises, each unit of currency buys fewer goods and services; consequently, inflation is also an erosion in the purchasing power of money – a loss of real value in the internal medium of exchange and unit of account in the economy. A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index (normally the Consumer Price Index) over time.

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Inflation's effects on an economy are manifold and can be simultaneously positive and negative. Negative effects of inflation include a decrease in the real value of money and other monetary items over time, uncertainty over future inflation may discourage investment and savings, and high inflation may lead to shortages of goods if consumers begin hoarding out of concern that prices will increase in the future. Positive effects include a mitigation of economic recessions, and debt relief by reducing the real level of debt.

Economists generally agree that high rates of inflation and hyperinflation are caused by an excessive growth of the money supply. Views on which factors determine low to moderate rates of inflation are more varied. Low or moderate inflation may be attributed to fluctuations in real demand for goods and services, or changes in available supplies such as during scarcities, as well as to growth in the money supply. However, the consensus view is that a long sustained period of inflation is caused by money supply growing faster than the rate of economic growth.

Moderate inflation has been a major strength of the Indian economy. Despite strong inflationary pressures in the world economy, and the escalation of oil prices in particular, Indian authorities have been generally successful in keeping inflation under control.

Relative price stability has been achieved through availability of essentials at stable and controlled prices, Government maintenance of buffer and reserve stocks, regular authorised imports of consumer items and controls on exports to curb domestic prices of commodities in short supply. Monetary policy has also been geared towards the same goal. But this has not been without cost, in terms of high unemployment and lack of export growth.

Although the Indian Government has been able to reduce its fiscal deficit substantially, the bulk of fiscal adjustment so far has occurred on the expenditure side. This is due to the already high tax/GDP ratio and the inflexibility of India's narrowly based tax structure.

Given the low tolerance of the Indian polity for inflation because of its capacity to erode living standards of large segments of the population, reducing the rate of inflation is one of the principal objectives of the Government's stabilisation program.

The Government of India, in a discussion paper on future reforms, has identified control of inflation as a necessary condition to ensure adequate availability of credit for production and investment and to achieve external sector viability in the medium term. A continued reduction of the fiscal deficit is a prerequisite for achieving that goal.

3.5 OTHER ECONOMIC PROBLEMS

Rapid increase in population may give rise to many economic problems. We shall look into some important problems.

Poverty and Unemployment

India is an agricultural nation. As industrial and service sectors do not develop in proportion to the growth of population, most people depend on agriculture. Due to the increase in the cost of production, agriculture is becoming unprofitable. Besides, there is no increase in the employment opportunities in other sectors and this creates more unemployment problems.

Poverty in India is a major issue. Rural Indians depend on unpredictable agriculture incomes, while urban Indians rely on jobs that are, at best, scarce.

Since its independence, the issue of poverty within India has remained a prevalent concern. As of 2010, more than 37% of India's population of 1.35 billion still lives below the poverty line. More than 22% of the entire rural population and 15% of the urban population of India exists in this difficult physical and financial predicament.

The division of resources, as well as wealth, is uneven in India - this disparity creates different poverty ratios for different states. For instance, states such as Delhi and Punjab have low poverty ratios. On the other hand, almost half the population in states like Bihar and Orissa live below the poverty line.

A number of factors are responsible for poverty in the rural areas of India. Rural populations primarily depend on agriculture, which is highly dependant on rain patterns and the monsoon season. Inadequate rain and improper irrigation facilities can obviously cause low, or in some cases, zero production of crops.

Additionally, the Indian family unit is often large, which can amplify the effects of poverty. Also, the caste system still prevails in India, and this is a major reason for rural poverty - people from the lower casts are often deprived of the most basic facilities and opportunities. The government has planned and implemented poverty eradication programs, but the benefits of these programs are yet to bear fruits.

The phenomenal increase in population in the cities is one of the main reasons for poverty in the urban areas of India. A major portion of this additional population is due to the large scale migration of rural families from villages to cities. This migration is mainly attributed to poor employment opportunities in villages.

Poverty is one of the main issues, attracting the attention of sociologists and economists. It indicates a condition in which a person fails to maintain a living standard adequate for a comfortable lifestyle.

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Though India boasts of a high economic growth, it is shameful that there is still large scale poverty in India. Poverty in India can be defined as a situation when a certain section of people are unable to fulfill their basic needs. India has the world's largest number of poor people living in a single country. Out of its total population of more than 1 billion, 350 to 400 million people are living below the poverty line. Nearly 75% of the poor people are in rural areas, most of them are daily wagers, landless laborers and self employed house holders. There are a number of reasons for poverty in India. Poverty in India can be classified into two categories namely rural poverty and urban poverty.

Reasons for Rural Poverty

Some of the basic reasons of rural poverty in India are :

- Unequal distribution of income.
- High population growth.
- Illiteracy.
- Large families.
- Caste system.

Problems Of Rural Poverty

- Presence of malnutrition, illiteracy, diseases and long term health problems.
- Unhygienic living conditions, lack of proper housing, high infant mortality rate, injustice to women and social ill-treatment of certain sections of society.

Steps Taken by Government to Reduce Rural Poverty

The government of India has been trying its best to remove poverty. Some of the measures which the government has taken to remove rural poverty are :

- Small farmer's development Programme.
- Drought area development Programme.
- Minimum needs Programme.
- National rural employment Programme.
- Assurance on employment.
- Causes for Urban Poverty.

Causes for Urban Poverty

The causes of urban poverty in India are :

- Improper training.
- Slow job growth.
- Failure of PDS system.

Problems Of Urban Poverty

- Restricted access to employment opportunities and income.
- Lack of proper housing facilities
- Unhygienic environments
- No social security schemes
- Lack of opportunity to quality health and educational services.

UNEMPLOYMENT

Unemployment is a situation in which employment opportunity is not available to an adult person who is willing to work.

It is obvious that when there is decrease in employment and income, purchase of food stuffs for maintaining health becomes imposssible. Such people naturally come below poverty line. In India, those people who do not get 2100 calories of food in rural areas and 2400 calories of food in urban areas are considered to be Below Poverty Line (BPL).

As per the estimate of the year 2000, 26.1% of people are below poverty line in India. About 40 per cent of people are poor. Poverty encourages child labour. Today in India, unemployment continues to be the most serious problem. The reasons might be –

- Collapse of agricultural sector,
- Decline of indigenous/traditional industries,
- Lack of industrial enterprises,
- Inadequate development of service sector,
- Lack of capital,
- Lack of entrepreneurship,
- Mechanisation.

India as a nation is faced with massive problem of unemployment. Unemployment can be defined as a state of worklessness for a man fit and willing to work. It is a condition of involuntary and not voluntary idleness. Some features of unemployment have been identified as follows :

- The incidence of unemployment is much higher in urban areas than in rural areas.
- Unemployment rates for women are higher than those for men.
- The incidence of unemployment among the educated is much higher than the overall unemployment.
- There is greater unemployment in agricultural sector than in industrial and other major sectors.

Economists and social thinkers have classified unemployment into various types. Generally unemployment can be classified in two types :

(1) Voluntary Unemployment

In this type of unemployment a person is out of job of his own desire doesn't work on the prevalent or prescribed wages. Either he wants higher wages or doesn't want to work at all. It is in fact social problem leading to social disorganization. Social problems and forces such as a revolution, a social upheaval, a class struggle, a financial or economic crisis a war between nations, mental illness, political corruption mounting unemployment and crime etc. threaten the smooth working of society. Social values are often regarded as the sustaining forces of society.

They contribute to the strength and stability of social order. But due to rapid social change new values come up and some of the old values decline. At the same time, people are not is a position to reject the old completely and accept the new altogether. Here, conflict between the old and the new is the inevitable result which leads to the social disorganization in imposed situation. In economic terminology this situation is voluntary unemployment.

(2) In voluntary Unemployment

In this type of situation the person who is unemployed has no say in the matter. It means that a person is separated from remunerative work and devoid of wages although he is capable of earning his wages and is also anxious to earn them. Forms and types of unemployment according to Hock are.

(a) *Cyclical unemployment* - This is the result of the trade cycle which is a part of the capitalist system. In such a system, there is greater unemployment and when there is depression a large number of people are rendered unemployed. Since such an economic crisis is the result of trade cycle, the unemployment is a part of it.

(b) *Sudden unemployment* - When at the place where workers have been employed there is some change, a large number of persons are unemployed. It all happens in the industries, trades and business where people are employed for a job and suddenly when the job has ended they are asked to go.

(c) *Unemployment caused by failure of Industries* - In many cases, a business a factory or an industry has to close down. There may be various factors responsible for it there may be dispute amongst the partners, the business may give huge loss or the business may not turn out to be useful and so on.

(d) *Unemployment caused by deterioration in Industry and business* - In various industries, trades or business, sometimes, there is deterioration. This

deterioration may be due to various factors. In efficiency of the employers, keen competitions less profit etc. are some of the factors responsible for deterioration in the industry and the business.

(e) *Seasonal unemployment* - Certain industries and traders engage workers for a particular season. When the season has ended the workers are rendered unemployed. Sugar industry is an example of this type of seasonal unemployment.

The problem of unemployment has becoming a colossal. Various problems have caused this problem. There are individual factors like age, vocational unfitness and physical disabilities which restrict the people. External factors include technological and economic factors. There is enormous increase in the population. Every year India adds to her population afresh. More than this every year about 5 million people become eligible for securing jobs. Business field is subject to ups and downs of trade cycle and globalization.

Economic depression or sick industries are often close down compelling their employees to become unemployed. Technological advancement contributes to economic development .But unplanned and uncontrolled growth of technology is causing havoc on job opportunities. The computerization and automation has led to technological unemployment. Strikes and lockouts have become inseparable aspect of the industrial world today. Due to these industries often face economic loses and production comes down. Since workers do not get any salary or wages during the strike period they suffer from economic hardships. They become permanently or temporarily unemployed. Today young people are not ready to take jobs which are considered to be socially degrading or lowly. Our educational system has its own irreparable defects and its contribution to the unemployment is an open truth.Our education does not prepare the minds of young generation to become self-employed on the contrary it makes them dependent on government vacancies which are hard to come.

Our State right from the beginning of Five year plans has introduced several employment generating schemes and programmes over the years but in the absence of proper implementation and monitoring have failed to achieve the required targets. Recently UPA Government has come up with Rural Employment Guarantee program which aims to provide minimum days of employment to people living in the villages. This is a laudable programme if implemented sincerely because it will provide employment to people during natural calamities like drought, floods etc. The remedial measures for reducing unemployment may lay greater emphasis on creation of opportunities for self -employment, augmentation of productivity and income levels of the working poor, shift in emphasis from creation of relief type of employment to the building up of durable productive assets in the rural areas and instead of attempting to revert somewhat to protectionist policies the pace of privatization may be accelerated.

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Shelter / Housing

Among the basic needs of man, shelter is very important. As population increases corresponding increase in the housing facilities should also be there. According to the figures available, there are 103297 households in Kerala that do not have shelters. The government extends subsidy relief, income tax relief etc. through various institutions and agencies to promote construction of houses. Besides, the government gives housing finance also.

Environmental Problems

When population increases, there is an increased and unscientific exploitation of resources. This type of exploitation of resources creates obstacles in sustainable development. Shortage of shelter paves the way for the growth of slums and insanitation.

Pollution of environment causes different types of communicable diseases. Diseases like Rat fever and Dengue fever, wide spread in Kerala now a days, are the outcome of environmental pollution. This has placed a heavy financial commitment on the primary healthcare scenario for the government and the people.

The government has to mobilise more funds from time to time for furnishing the increasing population with health, education, drinking water and other basic needs. If population is controlled properly, these funds can be utilised for other productive developmental activities. In short, population growth has to be checked so as to face the challenges raised by population explosion in the economic field.

Corruption and Black Money

A significant part of the Indian economy lies outside the money economy. Although official data ignore the 'black economy', it has attained vast proportions in relation to measured national income.

Various attempts have been made to estimate the extent of black income in India. Estimates by the National Institute of Public Finance and Policy put it at 20 per cent of GDP in 1980/81. This did not include income generated through smuggling of goods other than gold, or through black marketing in foreign exchange and other pricecontrolled commodities. In an interview, Finance Minister Manmohan Singh estimated black income at 20 to 40 per cent of GDP. The annual rate of growth of black income was estimated to be higher than the annual rate of growth of the economy.

"...there are still people who believe that the Indian economy can be managed in the nineties as it was managed in the fifties or sixties. ...Initially it [regulation] served a purpose, but over a period of time this excessive regulation became an instrument of harassment, it created excessive uncertainties. It also generated, I think, a lot of corruption in the system and it sapped the creative energies of all." - Manmohan Singh, Business World, 25 August-7 September 1993

Excessive controls and unfulfilled demand for goods and services have led to widespread corruption in the Indian economy. The grant of industrial and import licenses, quotas and permits, transactions in urban real estate, smuggling, manipulation of import and export invoices, bribes and leakages from government expenditure have had a negative impact on the official economy.

A major benefit of liberalisation is the elimination of quasi-rents in a number of areas, removing the possibilities for corruption. With the replacement of required licenses and clearances of all types by decontrol of commodities and the restoration of the market mechanism in large sectors of the economy, opportunities for corruption will be substantially removed and the extent of black money reduced.

Partial convertibility of the rupee has reduced the attraction of hawala markets. However, the generally high customs duties still provide an incentive for under invoicing and financing imports with the help of dollars bought in the hawala market. For years some Indians had shifted funds abroad to reduce or avoid tax, pay for real estate, business trips and holidays and deal in gold. The new reforms are acting as disincentives against this past behaviour. This has been successful in that the exchange rate has remained fairly stable and the premium on the illegal market has fallen from 25 per cent to about 8 per cent.

Industrial Sickness

Industrial sickness specially in small-scale Industry has been always a demerit for the Indian economy, because more and more industries like – cotton, Jute, Sugar, Textile small steel and engineering industries are being affected by this sickness problem.

As per an estimate 300 units in the medium and large scale sector were either closed or were on the stage of closing in the year 1976. About 10% of 4 lakhs unit were also reported to be ailing. And this position also remain same in the next decades. At the end of year 1986, the member of sick units in the portfolio of scheduled commercial banks stood at 1.47,740 involving an out standing bank credit of Rs. 4874 crores.

- Where the total number of large Industries which are sick were 637 units at the end of year 1985 increased to 714 units in the end of next year 1986.

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3.7 REVIEW QUESTIONS

1. What is the relation between saving and capital formation? Discuss.
2. Explain the status of inflation in India.
3. Discuss the economic problems such as poverty and unemployment from India's perspective.
4. What are the principal reasons of industrial sickness?

3.8 FURTHER READINGS

- S K Misra and Puri, ***Indian Economy***, Himalaya Publisher, New Delhi.
- Uma Kapila, ***Understanding The Problems Of Indian Economy***, Academic Foundation Publication, New Delhi, 2005.
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- Dr Ashwani Mahajan and Gaurav Datt, ***Indian Economy***, S. Chand Group Publisher, New Delhi.

UNIT – IV

NATURE OF INDIAN ECONOMY

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STRUCTURE

4.1 LEARNING OBJECTIVES

After going through this unit, students will be able to :

- state the basic nature of Indian Economy;
- describe Indian Economy as dualistic economy;
- explain Indian Economy as mixed economy.

4.2 INTRODUCTION

India economy, the third largest economy in the world, in terms of purchasing power, is going to touch new heights in coming years. As predicted by Goldman Sachs, the Global Investment Bank, by 2035 India would be the third largest economy of the world just after US and China. It will grow to 60% of size of the US economy. This booming economy of today has to pass through many phases before it can achieve the current milestone of 9% GDP.

The history of Indian economy can be broadly divided into three phases: Pre- Colonial, Colonial and Post Colonial.

Pre Colonial **:** The economic history of India since Indus Valley Civilization to 1700 AD can be categorized under this phase. During Indus Valley Civilization Indian economy was very well developed. It had very good trade relations with other parts of world, which is evident from the coins of various civilizations found at the site of Indus valley.

Before the advent of East India Company, each village in India was a self sufficient entity. Each village was economically independent as all the economic needs were fulfilled with in the village.

Then came the phase of Colonization. The arrival of East India Company in India ruined the Indian economy. There was a two-way depletion of resources. British used to buy raw materials from India at cheaper rates and finished goods were sold at higher than normal price in Indian markets. During this phase India's share of world income declined from 22.3% in 1700 AD to 3.8% in 1952.

After India got independence from this colonial rule in 1947, the process of rebuilding the economy started. For this various policies and schemes were formulated. First five year plan for the development of Indian economy came into implementation in 1952. These Five Year Plans, started by Indian government, focused on the needs of Indian economy.

If on one hand agriculture received the immediate attention on the other side industrial sector was developed at a fast pace to provide employment opportunities to the growing population and to keep pace with the developments in the world. Since then Indian economy has come a long way. The Gross Domestic Product (GDP) at factor cost, which was 2.3 % in 1951-52 reached 9% in financial year 2005-06

Trade liberalization, financial liberalization, tax reforms and opening up to foreign investments were some of the important steps, which helped Indian economy to gain momentum. The Economic Liberalization introduced by Man Mohan Singh in 1991, then Finance Minister in the government of P V Narsimha Rao, proved to be the stepping-stone for Indian economic reform movements.

To maintain its current status and to achieve the target GDP of 10% for financial year 2006-07, Indian economy has to overcome many challenges.

Challenges before Indian economy

- *Population explosion :* This monster is eating up into the success of India. According to 2001 census of India, population of India in 2001 was 1,028,610,328, growing at a rate of 2.11% approx. Such a vast population puts lots of stress on economic infrastructure of the nation. Thus India has to control its burgeoning population.
- *Poverty :* As per records of National Planning Commission, 36% of the Indian population was living Below Poverty Line in 1993-94. Though this figure has decreased in recent times but some major steps are needed to be taken to eliminate poverty from India.

- *Unemployment :* The increasing population is pressing hard on economic resources as well as job opportunities. Indian government has started various schemes such as Jawahar Rozgar Yojna, and Self Employment Scheme for Educated Unemployed Youth (SEEUY). But these are proving to be a drop in an ocean.
- *Rural urban divide :* It is said that India lies in villages, even today when there is lots of talk going about migration to cities, 70% of the Indian population still lives in villages. There is a very stark difference in pace of rural and urban growth. Unless there isn't a balanced development Indian economy cannot grow.

4.3 INDIA : AS A DEVELOPING ECONOMY

The Indian economy ranks third in the list of world economies in terms of purchasing power and is entitled the fastest growing economy of the world. Goldman Sachs, the Global Investment Bank predicted that by the year 2035, the Indian economy be the third largest economy in the world and would grow to 60% of size of the US economy. This dynamic economy is capable of reaching great heights and achieving the current milestone of 9 percent GDP.

Despite of a number of problems and limitations, the economists pick out the strengths of this escalating economy which could fetch benefits for its overall growth and progress. Samuel Johnson once said, "Great works are performed not by strength but by perseverance and while the will to succeed is important what is even more important is the will to prepare for the success". Keeping this thought in mind the Indian economy has turned its biggest problem 'population' into its biggest strength 'The Large Human Resource.' Today the Indian economy is bestowed with a large pool of skilled workers that work. This valuable strength of 'favorable demographics' is inherited by the large industrial sector of the economy for its up-liftment.

Next in the list of strengths is the rapidly growing middle class section that possesses a strong desire to consume. Thus, the Indian economy can easily maintain a preferential balance between its productivity and consumption.

Next comes, the rich natural resource base that comprises of valuable resources like coal, iron ore, water, limestone, granite, Manganese, Mica, Chromites, Bauxite, Titanium ore, Natural gas, Petroleum, Diamonds and Thorium. These energy resources promise a significant future potential for the Indian economy.

Some other strengths of the Indian economy are the growing education system, English language proficiency, strong tertiary education, great record of software development, government support and policies, process quality focus, skilled workforce, cost advantage, entrepreneurship, reverse brain drain, expansion of existing relationships, leverage relationships in West to access overseas markets and Indian domestic-market growth.

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The Indian economy is booming. From 1998 through 2008, India's GDP increased at an average rate of more than 7 percent per year. And despite the global recession, in the second quarter of 2009, India's economy grew by 6 percent — even as GDP in the U.S., Japan, Germany, and other countries declined. This impressive growth will greatly change consumer spending patterns in the coming years, producing significant increases in sales of discretionary items and consumer durables.

The rate of growth of the economy is the most commonly used measure of overall performance and it is appropriate to begin with this indicator. Up to about the mid-seventies, India's trend growth rate of G.D.P ignoring yearly fluctuations seemed firmly anchored at about 3.5 percent per year, unforgettably characterized by the late professor Raj Krishna as " the Hindu rate of growth". There is clear evidence that the economy broke through this constraint some time in the mid-seventies. The growth rate over the past ten years or so averages about 4.5 percent and this is an average over a period in which growth was accelerating. The underlying growth rate of the economy in the mid-eighties is nearer 5 percent per year. This is not high compared with growth rates achieved in earlier decades by the better-performing developing countries. Some countries have achieved annual growth rates as high as 10 percent over sustained periods, and many have grown at rates between 6 percent and 7 percent in the sixties and early seventies. But this comparison is not wholly fair in assessing recent economic performance in India.

An obvious point which has to be noted is that India is a relatively large economy and also among the group of low-income countries of the developing world. The size of the economy ensures that a process of averaging must be at work. India's "growth potential" cannot therefore be presumed to be equal to the fastest-growing developing countries, but closer to the average. More important, India's recent performance should not be assessed by comparing it with growth rates achieved by developing countries in an earlier period when the international environment was especially conducive to rapid growth. The growth potential of the developing world as a whole has slowed down since the mid-seventies, and when due allowance is made for this factor, India's recent growth performance and current growth prospects appear in a much better light.

Trends in 1980s

In the period up to the mid-seventies India's growth rate of around 3.5 percent per year was much lower than the average of about 6.0 percent achieved by the developing countries as a whole. In the past ten years, however, India's growth rate has accelerated, while growth rates in most of the developing world have decelerated. India's growth rage in the period 1981-86 was almost 5 percent, when all developing countries taken together grew by only 2.5 percent. Admittedly the low growth of developing countries as a group was partly due to negative growth rates in the oil-exporting countries, but even if these countries are excluded, the category of non-oil-developing countries shows a growth of only 3.5 percent per year in this period. In fact, India's growth performance in the eighties is exceeded only be some of the fast-growing East Asian economies and China.

This raises the question whether the acceleration in growth is a temporary phenomenon or indicative of a more basic improvement in the economy's growth potential. The theme explored in this chapter is that India had indeed experienced a permanent acceleration in growth, accompanied by an increase in its underlying growth potential. A degree of structural maturity has been achieved in both agriculture and industry, which not only has laid the foundation for sustained growth at 5 percent but also holds out the prospect of higher growth in future. The elements of this transformation and the policy framework in which it took place are discussed in the subsequent sections of this chapter.

Turnaround in Agriculture

A key element in the improvement in aggregate performance was improved performance in agriculture. This not only contributed directly to faster growth of GDP but also stimulated industrial growth through well-known linkages between the two sectors.

Conventional wisdom identifies the beginning of the Green Revolution with the introduction of the Mexican hybrid wheat in the late sixties. The new seeds quickly led to increased wheat yields in Punjab, where agroclimatic conditions were favorable and effective water management was readily possible. But this was only the beginning of the story. To achieve an agricultural turnaround, it was necessary to spread the Green Revolution more widely, both in terms of crops and also in terms of geographical regions. This required a comprehensive strategy for agricultural change requiring active Government intervention in many dimensions. It required a sustained effort at expanding irrigation with a shift from major to medium and minor irrigation.

It was necessary to push the banking system into the rural areas to provide credit for the purchase of biochemical inputs needed for high-yielding varieties (HYVs). These measures were accompanied by a policy for providing effective price support at remunerative prices. It was also necessary to strengthen research to adapt high-yielding varieties to local conditions and to develop new varieties continuously. Varietal development is particularly important in the case of rice, which is grown in widely varying agroclimatic conditions in the Gangetic basin and which requires a correspondingly larger number of varieties to ensure suitability in different local conditions.

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Agricultural policy evolved along these lines in the seventies, but it took time to have a noticeable impact. Although yields and production of wheat grew rapidly in Punjab from an early stage, this was not reflected in a convincing improvement in total agricultural performance until after the mid-seventies. With the usual lags in availability of data, and also the fact that it takes time before an upswing can be statistically established with confidence, there was considerable skepticism about agricultural performance even in the late seventies. Vaidyanathan found evidence that Indian agriculture may actually be decelerating, while Srinivasan cautioned that the Green Revolution was as yet only a wheat revolution.

By the early eighties, however, it became generally accepted that Indian agriculture had indeed entered a new phase, with a discernible acceleration in agricultural growth. The compound growth rate of production for all crops has increased from about 2.5 percent in the period 1950-51 to 1967-68, to about 3 percent after the mid-seventies. The compound annual growth rate of the index of agricultural production in the more recent period from 1980-81 to 1985-86 is about 3.2 percent. There is also clear evidence that agricultural production is becoming less vulnerable to variations in rainfall, itself an important aspect of agricultural performance.

The rate of growth achieved is still short of the 4 percent target growth of agricultural production in the Seventh Five-Year Plan (1985-90) but there are good reasons to believe that an acceleration to 4 percent growth is possible because of the structural and institutional changes which have taken place in the agricultural sector o0ver the past ten years. The institutional system needed to deliver the necessary inputs has a much wider coverage today than it did ten years age, but its full potential for increasing yields has yet to be realized. There has been an impressive increase in irrigation potential with the addition of about two million hectares of irrigation capacity every year. However, effective utilization of this capacity has lagged behind because of insufficient investment in the construction of field channels and drains and also because of inefficient water management practices. The area covered under high-yielding varieties shows an impressive increase from about 40 percent in 1980-81 to over 60 per cent in 1986-87, but while area coverage has increased, yields have not increased as much as could be expected. The banking infrastructure has also greatly increased its penetration of rural areas and is well positioned to provide rural credit for large parts of the country. All these developments constitute a structural transformation in the making-they have increased the production potential of Indian agriculture in a way which is not yet fully reflected in actual production.

Average yields in India are still well below yields achieved by many East Asian countries, although yields achieved in the best-performing agricultural states compare favorably. The inter-state variation in yields is a good indicator of the tremendous scope for further improvement in agricultural production. Rice yields are 3,200 kilograms per hectare in Punjab and 2,800 kilograms per hectare in Haryana. By contrast they are only 1,490 kilograms per hectare in Uttar Pradesh, 1,130 kilograms per hectare in Bihar and 1,560 kilograms per hectare in West Bengal. The area under rice in these States is very large. Even modest improvement in yields, narrowing the gap between what has already been achieved in the most productive areas in the country, could produce a large impact on overall agricultural growth.

Fortunately there are definite signs that the Green Revolution is indeed spreading to those areas, and yields are increasing in Uttar Pradesh and also Bihar. The task of agricultural transformation of these areas is not easy. It will require a tremendous improvement in the ground level functioning of the development administration to provide the farmer with the full package of support needed. But the process has definitely taken off, and further acceleration can be expected.

Industrial Performance and Policies

Rapid industrialization has long been viewed as the key to sustained growth and modernization of the economy. However, industrial policies were not framed solely by the immediate requirements of growth maximization. They were also influenced by active Government intervention in pursuit of some of the other developmental objectives listed earlier in this chapter.

The results present a mixed picture. In some respects the industrial sector can be said to have achieved the objectives set for it. A substantial public sector presence has been created, laying the foundations for a mixed economy. A high degree of "self reliance" has been achieved in the sense that a highly diversified industrial base has been created, catering to the domestic needs of the economy in a very wide variety of products. The entrepreneurial base of the economy has also been widened greatly, with the emergence of a number of new large and medium-scale industrial houses and a profusion of small-scale entrepreneurs. Finally, industrial has spread into regions where industry did not exist earlier and into which it probably would not have gone for many more years but for government intervention.

Against these achievements there are some obvious shortcomings. Industrial growth has not been as rapid as was expected. After a promising early period in the fifties and early sixties, industrial growth slowed down considerably, and from 1964-65 to 1975-76 the index of industrial production showed a growth rate of only 4 percent per year and value added in industry grew at 3.5 percent per year. There is evidence of a gradual acceleration after the mid-seventies, through with

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considerable year-to-year fluctuations. In the most recent period 1981-82 to 1986-87, the index of industrial production (using the new index base 1980-81=100) shows an average growth rate of around 7 percent per year while value added growth is about 6 percent. This is definitely an improvement on past performance, but it still falls short of what is needed to take the economy beyond the current 5 percent growth of GDP. For the future, India should be aiming at an industrial growth rate of around 9 percent to 10 percent, with value added in the industrial sector growing at 8 percent to 9 percent.

Another major shortcoming in India's industrial sector is its lack of international competitiveness and consequent poor export performance. Export performance is obviously important in a situation in which the continued growth and modernization of the economy requires a substantial inflow of imported capital goods and other inputs into production. The industrial sector, which absorbs a large percentage of total resources available to the economy, must be able to earn the foreign exchange it needs from exports. This has not yet happened to the extent needed, and one of the major constraints is clearly lack of competitiveness in terms of both cost and quality.

These shortcomings of slow industrial growth and a high-cost uncompetitive industrial sector have been widely recognized in India and have led to critical reexamination of the industrial policy structure to see what corrective steps are necessary. The blame for slow industrial growth cannot, of course, be laid on policy alone. For example, it could be argued that the key to faster industrial growth lies in a more rapid pace of expansion in agriculture which would provide the stimulus for faster growth in industry. While this is undoubtedly true, a consensus has also emerged that the system of regulatory control that has evolved over time is not conducive to industrial efficiency and dynamism.

A number of official reports and academic studies have documented that problems created by a control system consisting of detailed, often multiple, regulation and scrutiny. This system has operated in a manner which hampered the ability of industrial units to take rational investment decisions, limited their ability to modernize existing capacities and even discouraged expansion of production beyond licensed capacity. It has also restricted competition which would have been a spur to improved quality and lower cost. Much of the problem arises because of the multiplicity of objectives to which industrial policy has been tailored, each involving an intervention which has an economic cost.

The catalogue of criticisms of the industrial policy are well-known. The original rationale for industrial licensing was to direct private investment into desired areas and also to avoid wasteful overinvestment. In practice, strict licensing often had the effect of limiting expansion by efficient units or entry by potential new units on the ground that adequate capacity had already been licensed.

Inefficient producers were therefore effectively shielded from domestic competition. The objective of limiting concentration of economic power led to specially strict scrutiny and regulation of the expansion or investment plans of larger houses, with a view to ensuring that their activities were restricted to high-priority, technically more difficult industries. Consideration of maintaining regional balance often led to fragmentation of capacity, with a consequent loss of economies of sale. There was a tendency to license a larger number of small units spread over many States, where a single economic-scale plant would have been more efficient.

These and other sources of inefficiency undoubtedly contributed to the emergence of a high-cost industrial structure which slowed growth and reduced export competitiveness. Such a structure would obviously not have been sustainable in a more open economy, which allows competition from imports, but the trade policy permitted very little room for import competition. The objective of self-reliance should have meant self-reliance with efficiency. In practice, however, domestic production was protected from external competition with little regard to domestic resource costs. Protection, which should have been viewed as giving initial support for infant industries, which would in time outgrow the need for it, typically continued as an indefinite crutch, supporting industries whose costs of production were far out of line with international prices.

These problems prompted the establishment of various official committees in the early eighties to examine the structure of industrial and trade policies and make recommendations for change. On the basis of their recommendations a series of policy initiatives were taken in 1985 and 1986. The most important of these were the following :

1. The coverage of industrial licensing was reduced by delicensing twenty-five industries and eighty-two pharmaceutical products.
2. Where licensing remained in operation, procedures were simplified and industrial licensing was much more liberally operated. Furthermore, greater flexibility was provided to producers to expand capacity within existing licensed capacity. Provisions for allowing automatic expansion in licensed capacity, which existed earlier, were liberalized. For a number of products, licenses were "broadbanded" so as to cover similar products, thus allowing flexibility in varying the product mix.
3. The minimum size of assets beyond which a unit is declared a "large house" and subjected to specially rigorous scrutiny in licensing was increased from Rs 200 million to Rs 1,000 million.
4. Twenty-seven industries were added to the list of industries for which large houses are exempted from the special scrutiny normally required.

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5. A list of industries was notifies where economies of scale are important, and for these industries minimum economic scales of plant were specified. Existing units below these sizes will be allowed to expand freely up to the minimum economic size, and new units will be licensed only for these of higher sizes.
6. A number of items were earlier reserved for production in the small-scale sector, defined in terms of units with investment in plant and machinery below Rs 35 lakhs. In many cases, this investment limit was too low for efficient production of the reserved items. The list of reserved items has been reviewed, and a number of items have been deleted, or in some cases redefined, to enable larger-scale investment to be made for the production of a large number of items.
7. In the area of trade policy, the Government accepted the principle of shifting from quantitative controls to tariff controls. Implementation, however, was left to be determined in the light of practical possibilities. Some tariff adjustments have indeed been made along these lines.
8. No major change was made in the degree of import liberalization in 1985 and 1986, but it was reaffirmed that the liberalization that had earlier taken place over the first half of the eighties would stay in place. The affirmation that import policy would not be reversed was an important signal in a situation where the balance of payments was beginning to show strain.
9. A major step was taken towards rationalization of the indirect tax system in 1986 by introducing a modified value-added tax, covering a wide range of commodities. The system provides for adjustment of the duties paid on inputs against the tax due on output. Although tax rates on outputs were simultaneously raised to avoid any net reduction in effective taxation in the initial stages, it was nevertheless an important reform. The total burden of excise taxation on a commodity is now more apparent since earlier-stage duties are adjusted against the tax. This paves the way for restructuring of indirect taxation in the future. The Government has indicated that restructuring of indirect taxes will be attempted industry by industry.
10. Steps have also been taken to rationalize the structure of customs duties. The range of variation of tariffs for capital goods has been reduces. Tariffs were raised on a number of items earlier allowed at 55 percent duty and lowered on others where the tariff was 101 percent, and all these items now face a uniform duty of 85 percent (inclusive of a 15 percent countervailing duty which offsets the 15 percent domestic excise duty on capital goods). In addition, the customs duty structure for components

and raw materials has been both lowered, and rationalized, for selected sectors. It has also been indicated that such restructuring will continue to be made sector by sector.

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11. Finally, a number of measures were taken to improve the competitive position of exporters. The procedures for giving exporters access to imports at international prices were further improved in several ways and direct tax incentives for income from exports were strengthened. Some of these measures are applicable to all exporters, but others were aimed at particular export sectors. The customs duties on capital goods for certain industries deemed to have export potential (gems and jewelery, garments, leather, etc.) were reduced to 35 percent in an effort to bring the cost of production in these industries more in line with world prices.

It is too early to evaluate quantitatively the effect of the 1985 and 1986 measures on actual industrial performance. However, there is no doubt that they have contributed to a spurt of investment proposals in these years. The volume of industrial licenses approved in 1985 and 1986 increased very substantially and there was also a large increase in industrial investment proposals in the delicensed category as measured by the number of registrations. Moreover, because of the more liberal approach to technological modernization and import of capital goods for this purpose, the more recent investment proposals embody better technology than has been allowed in the past. Many of them also represent plant sizes which are nearer to economic levels of scale. The full impact of this investment boom and the associated qualitative improvements should be evident in the next few years when the capacities to be created by these investments come on-stream.

An important determinant of industrial performance in India is the performance of the public sector. The creation of a large public sector presence in the Indian economy was one of the explicit objectives of India's development strategy and the success in achieving this objective is evident. Public sector output today accounts for about 45 percent of the output of the organized industrial sector and 30 percent of total industrial output. Its alone ensures that an overall acceleration of industrial growth would require an improvement in public sector performance. This is all the more so since the public sector occupies a dominant position in key infrastructure industries such as power generation, coal, steel and crude oil production, and performance in these areas is crucial to the general level of industrial efficiency.

There can be no doubt that very considerable improvement is needed in public sector performance. The logic of undertaking large investments to create a public sector with a commanding presence implies that it will generate the necessary surpluses to be able to replace capital and finance investment for future growth. The record in this respect has been disappointing. There are heartening examples of very good performance by individual enterprises, but, equally, there are many cased of large and chronic loss makers. The overall generation of resources from this sector is well below the level assumed in the Plan. If the resources contributed by the oil sector are excluded, the performance of the other public sector organizations appears in a much poorer light.

There is no easy solution to the problem of improving public sector performance. Many of the public sector enterprises suffer from earlier noneconomic decisions, which are not always the fault of management. No simple formula will overcome these problems. Many are heavily overmanned, and it is not easy to lay off surplus labor. Some suffer from wrong technology choices or product mix decisions made earlier which impose a continuing burden on the enterprise. In some cases, public sector projects become unviable even before they commence production because capital costs are allowed to escalate to unreasonable levels on account of delays in implementation, usually because the unit was short of funds at the early stages. Still other loss-making enterprises in the public sector are actually former private sector units which had become financially unviable and were taken over by the Government only to protect employment. Each of these pathologies obviously calls for its own solution.

However, a consensus is emerging on one important issue, and that is the need to give management autonomy to public sector enterprises as a key requirement for efficient functioning. There is no inherent reason why a public sector corporation should be inefficient, if it is run like a corporation. In particular, it must not be subjected to continuous interference from the Government or bureaucracy which demoralizes public sector management and dilutes accountability. Government should set out the corporate objectives of the enterprise and top management must be given the full degree of autonomy needed to achieve these corporate objectives. With this autonomy there must also be accountability.

The performance of top management must be judged in terms of the achievement of agreed objectives. The Sengupta committee, which examined the functioning of public sector enterprises and submitted its report in 1985, had recommended that the objective of ensuring autonomy and accountability could be achieved by introducing a Memorandum of Understanding (MOU) which would be jointly agreed between the Government and the top management of the enterprises each year. The MOU would set out the objectives according to which the management performance would be judged and it would also specify actions expected by the public sector enterprise from the Government. As an experiment, the system of MOUs is being implemented for six major public sector enterprises beginning in 1987.

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It is important to note that the "privatization" which is often recommended as the answer to public sector inefficiency is not on the agenda. Proponents of privatization obviously regard the public sector as inherently inefficient. No such assumption underlies the policy reform being attempted in India. On the contrary, the basic approach is that a public sector enterprise can be as efficient as any other corporate sector unit can be made to approximate the relationship between shareholders and a corporation.

The policy initiatives described above for improving industrial performance involve a considerable measure of deregulation and therefore may be called economic liberalization but they obviously differ in important respects from the usual liberalization packages often prescribed for developing countries and also undertaken in some cases (though with varying success). The familiar liberalization package focuses heavily on foreign trade liberalization and rationalization of protection. The usual formula is to recommended a first stage consisting of a switch from quantitative to tariff controls, followed by a phased reduction in both the variation in degrees of protection across sectors and also the average level of protection. The whole process is usually expected to be underpinned by an exchange rate depreciation. Often it includes a conscious policy of privatization of the public sector to overcome problems of public sector inefficiency. The differences in the Indian case are evident.

Indian policy reform has focused much more on domestic industrial liberalization rather than foreign trade liberalization. There is considerable internal deregulation aimed at strengthening the more efficient domestic firms and encouraging them to invest and expand. This is expected to inject much more competition into the system, creating incentives for reducing costs. The internal liberalization has been accompanied by a policy of maintaining a sufficiently open access to imports to permit modernization and technological upgrading in Indian Industry, which again will reduce costs and promote international competition. As far as foreign trade liberalization is concerned, a broad direction has been given about the desirability of switching from quantitative controls to tariffs, but the movement in this area is limited and certainly does not include imports of final consumer goods. However, significant tariff rationalization measures have been implemented in several sectors. Finally, there is no question of privatization of the public sector. The focus is on management and institutional reform of the public sector to improve its efficiency.

An important feature of the process of policy reform under way in India is that it is gradualist. The system is being subjected to much stronger pressures for efficiency and modernization, but at a controlled pace. The rationale for this gradualist approach lies in the perception that the system should be subjected to pressure commensurate with its ability to respond. Pressures beyond this point is only disruptive.

Financing Development

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An important aspect of performance, which has a direct bearing on the longer-term growth potential of the economy, is the ability to mobilize resources for investment. India's recent performance in this dimension is commendable. The rate of gross domestic investment in the economy, which increased only marginally from 17 percent in 1960-61 to 18 percent in 1970-71, then increased sharply thereafter to reach 24.7 percent in 1980-81. It has stayed at that level in the eighties. This investment rate is not high compared with rates achieved in the more rapidly growing middle-income countries, but it is much higher than the rates achieved in all the other low-income countries except China. What is more, the high rate of investment is being financed almost entirely from higher domestic savings, testifyi9ng to the success of self-reliance in this sense of the term. The gross domestic savings rate, which was 17 percent in 1970-71, had increased to 23 percent by 1985-86.

There is certainly need and scope for further increased the rate of savings and thereby also the rate of investment. But the levels already achieved, and their evident sustainability, reflect on important structural transformation in the economy in terms of its resource mobilization capability. Even if the investment rate is only maintained at around 24-35 percent, it should be possible not only to maintain the present 5 percent growth rate, but perhaps even to achieve some further acceleration. This is because all available evidence suggests that the incremental capital-output ratio is higher in India than in other countries. This points to the scope for increased efficiency in resource use, a possibility which is confirmed by recent studies of total factor productivity such as Ahluwalia and Goldar which show slower growth in these indices of industrial productivity in India compared with other developing countries.

An important feature of the increase in the aggregate savings rate is that it has occurred entirely because of the rapid growth in private household savings as a percent of GDP. The ratios of private corporate sector savings and public sector savings to GDP have remained more or less constant at 2 percent and 3 percent of GDP respectively, while private sector savings increased from 12 percent of GDP in 1970-71 to 18 percent of GDP in 1985-86. This rapid growth reflects the cumulative impact of a conscious policy of giving strong incentives for private household savings, especially in the form of financial assets. Following nationalization of the Indian commercial banks in 1969 (foreign banks were not nationalized) there was a massive expansion of the banking system spreading bank branches to all parts of the country, including also rural areas. The spread of bank branches definitely helped to mobilize private savings for investment in the organized sector. Interest rate policy was also geared to encourage household savings and for the past ten years or so, rates paid on term deposits with banks and other government-sponsored small savings schemes have yielded positive real rates of return for savers, especially for maturities of three years and above. More recently positive real rates of return have been available even for shorter maturities.

This favorable interest rate policy was reinforced by fiscal incentives for savings built into the direct tax structure which provide deductions from taxable income of the interest earned on a wide range of financial instruments. For certain types of long-term savings instruments, a deduction is aloes allowed for a part of the amount invested. These incentives, which have been steadily strengthened and expanded in the past ten years, have had the effect of raising the effective pretax return on eligible financial investments. They certainly encouraged the flow of savings into these investments and on the whole probably also stimulated total savings.

The institutional mechanisms for mobilizing household savings for productive investment have been further strengthened in the eighties by the remarkable development of the domestic capital market. Until about 1980 the volume of funds sought to be raised directly from the capital market through equity and bonds was only about Rs 500 crores per year. By 1986-87 this had increased more than tenfold.

This is an impressive rate of expansion by any standard and is indicative of a structural transformation taking place in an important area, which would have very important implications for mobilizing capital and allocating it efficiently. The process is as yet far from complete. The capital market remains thin and vulnerable to manipulation. It lacks adequate depth in terms of the existence of large numbers of active participants, including institutional investors. It is also inadequately regulated in terms of rules for full disclosure and restrictions on trading malpractices, including, in particular, insider trading. These limitations are fully recognized and a number of initiatives have been taken to overcome these problems. The Unit Trust of India, until the begining of 21st century, was the only mutual fund operating in India, and hitherto a conservative income-oriented operation at that, floated a second fund aimed at capital appreciation. The State Bank of India was to float a second mutual fund to complete with the Unit Trust. The term lending financial institutions, which upto now have played only a limited role in the capital market, have been more active in it in the past two years. The 1986 and 1987 budgets liberalized the treatment of long-term capital gains on sale of shares so that the maximum tax on capital gains on shares is only 20 percent for shares held for more than one year. The Government also proposes to set up a National Securities and Exchange Board which will serve as

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an agency supervising the functioning of the stock markets and setting clear rules on issues such as disclosure, insider trading, etc, to protect the investor. It will also serve as a forum for the development and implementation of ideas aimed at developing a healthy capital market.

In the area of resource mobilization therefore, the economy has shown a reasonably good performance with important structural changes taking place which have strengthened its capability to mobilize and allocate resources efficiently. The principal weak area has been the generation of investable surpluses form the public sector. This weakness has been widely recognized and it is to be hoped that the various measures being taken to improve public sector performance will correct this problem.

Equity and Social Justice

Considerations of equity and social justice have been extremely important in India's development objectives and policies and any evaluation of performance must include these dimensions also. This is not an easy task because of the multidimensional nature of the equity and social justice objective. The concern with income inequality and the need to increase incomes and levels of living for the poorest sections of the population is the most commonly discussed aspect of this objective. However, there are several other dimensions also, which call of distinct policy interventions. These include provision of basic or "minimum needs" for the build of the population (not just the poor) relating to health, education, drinking water and sanitation, removal of social disparities arising from caste, providing equality of opportunity at various levels of education to promote vertical mobility, and reduction in regional disparity, avoiding concentration of economic power within the private sector. A quantitative assessment of progress in each of these dimensions is beyond the scope of this chapter, but some broad features of performance and policies can be documented.

A major problem in assessing performance in reducing inequality is the lack of reliable time series data on the distribution of income. The only robust conclusions which can be asserted is that the distribution of income in India , as measured by the usual indicators of inequality, is among the more equal in the developing world. There is also no evidence of any increase in income inequality over time. Data on the distribution of consumption are more readily available and these show a decline up to the mid-seventies followed by a period in which there is year-to-year fluctuation but no trend.

Success in reducing poverty is in many respects more important than trends in relative inequality, and this subject has been extensively investigated in the Indian literature, especially in the context of rural poverty, which is the bulk of the problem. A broad consensus is emerging. Studies have shown that up to about the mid-seventies the percentage of the rural population living below the poverty line has fluctuated over time, but without any underlying trend. The percentage appears to have increased in years of poor agricultural performance (allowing for appropriate lags) and to have declined in response to good agricultural performance. It has also been argued that the behavior of prices and inflation has an important impact on the extent of poverty with rising prices being associated with an accentuation of poverty.

Although a clear trend does not emerge from the available data up to the mid-seventies, the more recent performance is more encouraging. There was perceptible drop in the late seventies in the percentage of population living below the poverty line and this appears to have continued into the eighties. The Planning Commission has estimated that the percentage of the rural population in poverty declined by 10 percent points in the Sixth Five-Year Plan period (1980-85) from 47 percent to 37 percent.

The pattern of no trend up to the mid-seventies followed by an improvement can be attributed to two factors. One is probably the acceleration in agricultural and nonagricultural growth which took place from the mid-seventies onward.

In the earlier period, overall growth, and especially agricultural growth, was so low that after allowing for population growth, there was only a very modest growth in per capita incomes. Per capita income in the rural areas probably grew at no more than 0.5 percent per year up to the mid-seventies. With per capita incomes growing so slowly it is not surprising that rural poverty was not much reduced. In the second period, growth in rural per capita incomes was definitely higher. If more rapid growth in nonagricultural income earned by rural households is allowed for, the growth in per capita incomes in rural areas in the more recent period could well be in the range of 1.5 percent or so. These growth rates are still only modest, but they represent a definite improvement on the earlier pattern. The regional pattern of growth in the eighties also indicates a shift which would have helped reduce poverty. There is an acceleration in growth in some old the very areas where poverty has been most concentrated, e.g., Uttar Pradesh and Bihar.

These developments suggest that the twin strategy of relying on accelerated growth, especially in agriculture, together with special programs aimed at directly helping households below the poverty line, can produce significant results in a reasonable period of time. The Planning Commission has estimated that the percentage of the population below the poverty line will have declined to 25 percent by 1989-90. the next decade should see a further sharp decline if not virtual eliminated in poverty as measured by the standard that has been used thus far.

As noted above, progress in other dimensions of equity and social justice is not so easily documented because of lack of data. But there is no doubt that there

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has been commensurate growth in most of the other indicators of minimum needs and living standards also. Perhaps the most important recent initiative in this area is the announcement of a New Education Policy aimed at upgrading the quality of education at all levels and accelerating the spread of education. A beginning in implementing this policy is being made in 1987-88 with a massive increase of almost 120 percent in Central Government expenditure on educational programmes. The special focus on education, including adult education, has direst relevance not only for productivity of the labor force but also for equity and poverty removal.

Trends in 1990s

The rate of growth improved in the 1980s. From FY 1980 to FY 1989, the economy grew at an annual rate of 5.5 percent, or 3.3 percent on a per capita basis. Industry grew at an annual rate of 6.6 percent and agriculture at a rate of 3.6 percent. A high rate of investment was a major factor in improved economic growth. Investment went from about 19 percent of GDP in the early 1970s to nearly 25 percent in the early 1980s. India, however, required a higher rate of investment to attain comparable economic growth than did most other low-income developing countries, indicating a lower rate of return on investments. Part of the adverse Indian experience was explained by investment in large, long-gestating, capital-intensive projects, such as electric power, irrigation, and infrastructure. However, delayed completions, cost overruns, and under-use of capacity were contributing factors.

Private savings financed most of India's investment, but by the mid-1980s further growth in private savings was difficult because they were already at quite a high level. As a result, during the late 1980s India relied increasingly on borrowing from foreign sources. This trend led to a balance of payments crisis in 1990; in order to receive new loans, the government had no choice but to agree to further measures of economic liberalization. This commitment to economic reform was reaffirmed by the government that came to power in June 1991.

India's primary sector, including agriculture, forestry, fishing, mining, and quarrying, accounted for 32.8 percent of GDP in FY 1991. The size of the agricultural sector and its vulnerability to the vagaries of the monsoon cause relatively large fluctuations in the sector's contribution to GDP from one year to another.

In FY 1991, the contribution to GDP of industry, including manufacturing, construction, and utilities, was 27.4 percent; services, including trade, transportation, communications, real estate and finance, and public- and private-sector services, contributed 39.8 percent. The steady increase in the proportion of services in the national economy reflects increased market-determined processes, such as the spread of rural banking, and government activities, such as defense spending.

Despite a sometimes disappointing rate of growth, the Indian economy was transformed between 1947 and the early 1990s. The number of kilowatt-hours of electricity generated, for example, increased more than fiftyfold. Steel production rose from 1.5 million tons a year to 14.7 million tons a year. The country produced space satellites and nuclear-power plants, and its scientists and engineers produced an atomic explosive device. Life expectancy increased from twenty-seven years to fifty-nine years. Although the population increased by 485 million between 1951 and 1991, the availability of food grains per capita rose from 395 grams per day in FY 1950 to 466 grams in FY 1992.

However, considerable dualism remains in the Indian economy. Officials and economists make an important distinction between the formal and informal sectors of the economy. The informal, or unorganized, economy is largely rural and encompasses farming, fishing, forestry, and cottage industries. It also includes petty vendors and some small-scale mechanized industry in both rural and urban areas. The bulk of the population is employed in the informal economy, which contributes more than 50 percent of GDP. The formal economy consists of large units in the modern sector for which statistical data are relatively good. The modern sector includes large-scale manufacturing and mining, major financial and commercial businesses, and such public-sector enterprises as railroads, telecommunications, utilities, and government itself.

The greatest disappointment of economic development is the failure to reduce more substantially India's widespread poverty. Studies have suggested that income distribution changed little between independence and the early 1990s, although it is possible that the poorer half of the population improved its position slightly. Official estimates of the proportion of the population that lives below the poverty line tend to vary sharply from year to year because adverse economic conditions, especially rises in food prices, are capable of lowering the standard of living of many families who normally live just above the subsistence level. The Indian government's poverty line is based on an income sufficient to ensure access to minimum nutritional standards, and even most persons above the poverty line have low levels of consumption compared with much of the world.

Estimates in the late 1970s put the number of people who lived in poverty at 300 million, or nearly 50 percent of the population at the time. Poverty was reduced during the 1980s, and in FY 1989 it was estimated that about 26 percent of the population, or 220 million people, lived below the poverty line. Slower economic growth and higher inflation in FY 1990 and FY 1991 reversed this trend. In FY 1991, it was estimated that 332 million people, or 38 percent of the population, lived below the poverty line.

Farmers and other rural residents make up the large majority of India's poor. Some own very small amounts of land while others are field hands, seminomadic shepherds, or migrant workers. The urban poor include many construction workers and petty vendors. The bulk of the poor work, but low productivity and intermittent employment keep incomes low. Poverty is most prevalent in the states of Orissa, Bihar, Uttar Pradesh, and Madhya Pradesh, and least prevalent in Haryana, Punjab, Himachal Pradesh, and Jammu and Kashmir.

By the early 1990s, economic changes led to the growth in the number of Indians with significant economic resources. About 10 million Indians are considered upper class, and roughly 300 million are part of the rapidly increasing middle class. Typical middle-class occupations include owning a small business or being a corporate executive, lawyer, physician, white-collar worker, or land-owning farmer. In the 1980s, the growth of the middle class was reflected in the increased consumption of consumer durables, such as televisions, refrigerators, motorcycles, and automobiles. In the early 1990s, domestic and foreign businesses hoped to take advantage of India's economic liberalization to increase the range of consumer products offered to this market.

Housing and the ancillary utilities of sewer and water systems lag considerably behind the population's needs. India's cities have large shantytowns built of scrap or readily available natural materials erected on whatever space is available, including sidewalks. Such dwellings lack piped water, sewerage, and electricity. The government has attempted to build housing facilities and utilities for urban development, but the efforts have fallen far short of demand. Administrative controls and other aspects of government policy have discouraged many private investors from constructing housing units.

Liberalization in the Early 1990s

Increased borrowing from foreign sources in the late 1980s, which helped fuel economic growth, led to pressure on the balance of payments. The problem came to a head in August 1990 when Iraq invaded Kuwait, and the price of oil soon doubled. In addition, many Indian workers resident in Persian Gulf states either lost their jobs or returned home out of fear for their safety, thus reducing the flow of remittances. The direct economic impact of the Persian Gulf conflict was exacerbated by domestic social and political developments. In the early 1990s, there was violence over two domestic issues: the reservation of a proportion of public-sector jobs for members of Scheduled Castes and the Hindu-Muslim conflict at Ayodhya. The central government fell in November 1990 and was succeeded by a minority government. The cumulative impact of these events shook international confidence in India's economic viability, and the country found it increasingly difficult to borrow internationally. As a result, India made various agreements with the International Monetary Fund (IMF) and other organizations that included commitments to speed up liberalization.

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In the early 1990s, considerable progress was made in loosening government regulations, especially in the area of foreign trade. Many restrictions on private companies were lifted, and new areas were opened to private capital. However, India remains one of the world's most tightly regulated major economies. Many powerful vested interests, including private firms that have benefited from protectionism, labor unions, and much of the bureaucracy, oppose liberalization. There is also considerable concern that liberalization will reinforce class and regional economic disparities.

The balance of payments crisis of 1990 and subsequent policy changes led to a temporary decline in the GDP growth rate, which fell from 6.9 percent in FY 1989 to 4.9 percent in FY 1990 to 1.1 percent in FY 1991. In March 1995, the estimated growth rate for FY 1994 was 5.3 percent. Inflation peaked at 17 percent in FY 1991, fell to 9.5 percent in FY 1993, and then accelerated again, reaching 11 percent in late FY 1994. This increase was attributed to a sharp increase in prices and a shortfall in such critical sectors as sugar, cotton, and oilseeds. Many analysts agree that the poor suffer most from the increased inflation rate and reduced growth rate.

4.4 INDIA : AS A MIXED ECONOMY

India's development experience is inextricably linked with India's decision to opt for a mixed economy in the beginning of her own planning process. There neither was nor is even now a consensus among social scientists whether the choice of the mixed economy concept was right for India. On the one hand, the heavy industry bias, insufficient resource allocation, noncompetitive nature of Indian economy in the global context, (high cost economy and'shackling of the growth impulses) are all traced to this decision to opt for mixed economy. It implied a significant degree of government intervention and control. On the other hand, the left-wing economists have viewed the adoption of mixed economy framework as being "little more than a device for legitimising the rule of the capital in direct collaboration with the State. They seem to regard it as axiomatic that a mixed economy represents nothing more than a compromise weighted heavily in favour of the vested interests." It has nevertheless to be conceded that market forces left to themselves cannof offer a solution to the problem of poverty, when millions of people live so close to subsistence and a large number below subsistence level. Also, given the way India's culture has evolved, a centrally planned economy with the State steering the social and economic change is an impossible model for the country. Pursuit of a mixed economy, therefore, has been the only feasible proposition.

What has been, however, suitable in the fifties is not necessarily suitable in the nineties. The politico-economic map of the world, particularly of the socialist bloc, has been redrawn and can hardly be recognised. Minimal State cannot be the answer in view of the heterogeneity of the country and the vast magnitude of poverty. As we witness the poor performance of the public sector it appears that the pervasive and intrusive role of the state has also lost its relevance.

Mixed Economy — Concept and Salient Features

Mixed economy implies demarcation and harmonisation of the public and private sectors. In it, free functioning of the market mechanism is not permitted and the government intervenes or regulates the private sector in such a way that the two sectors become mutually re-inforcing. A mixed economy represents an achievable balance between individual initiative and social goals. Planning and market mechanisms are so adjusted that each is used for realising the objectives of the economy to which it is most suited. There is a commitment on the part of both the sectors to national objectives and priorities.

Ownership of sectors is used by some to classify them. A system comprising cooperative organisations would be called a cooperative commonwealth. A system of joint sector organisations gives another type of mixed economy. A system in which both public sector and private sectors are present is the mixed economy of the conventional type. This mixed economy could be ad-hoc or a systematic type depending upon the extent of coverage by the public sector of core sector of the economy. The other consideration would be the extent to which the two sectors have been integrated and harmonised with the policy objectives of the economy as a whole.

It would be an economy that shows concern for the welfare objectives of the weaker sections through a combination of public distribution system, poverty alleviation programmes as also the production priorities based on a market economy. It could also be an economy that emphasises the social objectives of equity, employment, self-reliance, etc. There would be a varying degree of the mix of planning and market economy in each type of mixed ewnomy.

At times, it is held that every economy is a mixed economy and that the concept of mixed economy is neither precise nor worthwhile. It has, however, to be appreciated that the concepts of planned economy and market economy have definite ideological and operational profiles. The concept of mixed economy represents a middle position between these two extremes. This concept is flexible and has its own means and methods of approaching economic, political and social issues. To achieve clarity in the understanding of the concept of mixed economy, let us discuss the meaning and characteristics of Capitalism, Socialism.

Capltalism

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Capitalism has been defined as an economic system stressing individual initiative with a central role for a market economy, the profit motive and ownership of means of production by private individuals and corporations. Under capitalism, all means of production such as farms, factories, mines, transport are owned and controlled by private individuals and firms. Those who own these means of production are free to use them as they like in order to earn private profit. The State or government takes least part in the economic activities of the people. The government looks after only such matters as defence, foreign affairs, currency and coinage and some important civil works such as the construction of roads and bridges because private individuals may not find it profitable to undertake such works. Adam Smith was of the opinion that interests of individuals and those of the society coincide. The government, therefore, has no role in economic activities. In fact, the State was inherently incapable of undertaking such activities. State undertaking would mean wastage of society's resources. Things should be allowed to take their own course and there was, therefore, no need for planning or a pre-detennined framework for guiding the economic activities of the people.

Essentials of Capitalism

(1) The Right of Private Property : The various means of production are under the private ownership of individuals. The private individuals can hold, use or sell them as they like. Right of inheritance by the sons and daughters or other legal heirs is implicit in this right.

(2) Freedom of Enterprise : There is no restriction on the right of the individual to engage in any business ar enterprise for which he has the necessary means.

(3) Profit Motive : Profit motive is at the heart of a capitalistic system. It is profit, not any altruistic feelings, which makes an entrepreneur invest in any economic activity.

(4) Competition : Competition exists among producers, sellers, buyers, job seekers, employers, investors etc. This is achieved through cost control, price cutting, advertisements etc.

(5) Consumers Sovereignty : In a free market economy, wishes and preferences of the consumers direct the economic activity. The consumer occupies a key role in the system.

(6) Price System : It is the price mechanism which makes the capitalist economy function automatically without there being any central direction or control on production, consumption or distribution decisions.

(7) Inequalities of Income : Unequal distribution of property among individuals leads to unequal distribution of incomes. There is a wide gulf between the incomes of the rich and the poor.

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Since there is no central planning authority to make the fundamental economic decisions and thus to allocate productive resources among various competing uses, the market economy uses the price mechanism which plays a vital role in the working of the economy. Any imbalances are solved and corrected automatically through the price mechanism and demand-supply interaction. There are adequate rewards for greater efficiency and hard work through higher compensation. There is also incentive to save and invest and provide for higher incomes for the present and future generations. Market mechanism also enables entrepreneurs to take risks for higher profits, undertake innovations giving rise to technological progress. Capitalism is not a rigid but an envolving and dynamic concept. It has successfully fought off many crises and emerged stronger.

Capitalism has an ugly face also - it divides the society into those who are vulgarly rich and indulge in ostentatious consumption, and those who are the wretched of the earth and do not have even two square meals a day. The incentive system is also vitiated by the inequalities of income which get aggravated. Consumers' sovereignty is a myth. In fact large corporation controls market which it is supposed to serve and "even bend the consumers to its needs". Social costs which capitalism imposes on the society are in the form of inflation, unemployment, and cyclical fluctuations. Prof. Galbraith sums up the ineffectiveness capitalism thus : "There is much that the market can usefully encourage and accomplish — as it cannot put a man into space so it cannot bring quickly into existence a steel industry where there was little or no steel making capacity before. Nor can it quickly create an integrated industrial plant. Above all no one can be certain that it will do so in countries where development has lagged and where there is not only need for development but an urgent demand that it should occur promptly. to trust to the market is to take an unacceptable risk that nothing, or too little, will happen."

Socialism

"Socialism is an economic organisation of in which the material means of production are owned by the whole community to a general economic plan, all members being entitled to benefit from the results of such socialised planned production on the basis of equal rights". As against this, democratic socialism is characterised by public ownership of at least the "strategically important material means of production" while, at the same time maintaining individual freedom of both consumption and occupation.

Characteristics of Socialism

(1) It is based on social and economic planning, collective ownership of factors of production, social welfare and cooperations.

(2) Sosialist economy requires a central authority to determine the goals of society and coordinate the community's efforts to attain those goals.

(3) Socialist economy is a centrally planned economy, with the central authority planning the allocation of resources so as to attain the goals and objectives of the society.

(4) Equity or equitable distribution of income is central to socialism.

(5) Social welfare rather than private profit characterises a socialist society's goals.

Democratic socialism, which is a milder form of socialism shares with capitalism and existence of private sector, inequality of incomes, freedom of consumers and producers (subject to the demands of central planning), and existence of price mechanism. Socialism ensures full employment, a high rate of growth, dignity of labour and absence of exploitation of labour, relatively equitable distribution of income and wealth & absence of wastages associated with capitalistic system of production.

As against these merits, the system leads to loss of efficiency and enterprise, and incentives for hard work and initiative are missing. There is too much doctrinaire rigidity which pervades economic decision-making without regard to consequences. Power is concentrated in the hands of the State which takes all decisions regarding investment, production, distribution and consumption. This leads to bureaucratisation, redtape and a very cumbersome and expensive system of administration which cannot deliver the goods. Resource allocation is arbitrary as there is no rational or workable pricing system which normally guides allocation decisions. In the absence of competition, production is inefficient and costly, and quite often there are shortages particularly of consumer goods.

Salient Features of Mixed Economy

Having described the two extremes of capitalism and socialism, it is now possible to define a mixed economy in functional terms. A mixed economy is characterised by :

(i) a balance between the market economy and the planning mechanism;

(ii) a clear demarcation of the boundaries of public sector and private sector so that the core sector and strategic sectors are invariably in the publir sector;

(iii) while profit motive influences decision-making in the private sector, the economic viability criteria for investment decisions in the public sector is based on social cost-benefit analysis;

(iv) the ownership of means of production as between public sector, private sector, joint sector and cooperative sector is so decided that there is a balance between personal and social incentives and sectional and general interests;

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(v) there is occupational freedom and freedom of consumers' choice;

(vi) the government intervenes to prevent undue concentration of economic power, and monopolistic and restrictive trade practices;

(vii) the government endeavours to take care of the consumption levels and objectives of the weaker sections of the society through public distribution system, poverty alleviation programmes etc.;

(viii) social objectives of equity, employment, balanced regional development, family welfare are emphasised;

(ix) the doctrinaire rigidities of socialism are avoided and a pragmatic approach to decision-making for promoting economic growth is usually adopted; and

(x) mixed economy is not merely an economic concept and the rights of the individual are respected and protected subject only to the requirements of public law and order and morality.

It is incorrect to regard every country as a mixed economy just because some features of capitalism or socialism are present in that system. By this test, USA is a capitalist country and erstwhile USSR and China can be classified as socialist countries. The mere presence of some characteristics of a mixed economy is not enough. These are not their dominant characteristics. Countries like Sweden, Norway, Austria, France, India, and Israel are mixed economies. A mixed economy must have the structural characteristics and also profess the social democratic ideology. Countries that put greater stress on decentralised socialist market tend to approximate to or are approaching a mixed economy in the allocative aspect. Capitalist countries that put more stress on an egalitarian distribution of property and incomes (Japan, South Korea, Taiwan and Singapore) are approaching the mixed economy ideal from the other end.

Thus even though mixed economy is a mixed form of capitalism and socialism, it has an identity of its own. The evils of extreme economic systems of pure capitalism and pure socialism are avoided in a mixed economy. It presents a middle path.

Evolution of Mixed Economy in India

As early as the First Five Year Plan, the Indian policy makers decided that the State must not only assume the responsibility of providing the infrastructure facilities and the social overheads, but shoula also undertake direct promotional work. It was recognised that the government should intervene in the industrial field and accordingly the development of basic and strategic industries was earmarked to the public sector. It was also recognised that the task of economic development of the country was so large that the initiative of both the private and public sectors had to be harnessed for optimal growth. The concept of mixed

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economy was evolved so that both the private and public sectors could contribute to the process of growth. It was considered that individual enterprise and initiative would be the best catalysts of change in the sphere of agriculture, organised industries, small scale industrial units, trade and construction. With the announcement of the Industrial Policy Resolution, 1956, the concept of mixed economy was given a definite shape and policy direction.

Even before that, the Industrial Policy Resolution of 1948 had sought to establish mixed economy, with both private and public sectors, increasing controls in government hands for regulating all industries. The two main instruments of industrial policy were the Industries (Development and Regulation) Act of 1951 and the Companies Act of 1956. These two Acts conferred un the government, through licensing procedure, the power of regulating location, production and expansion of major industries in the country.

Industrial Policy Resolution, 1956

The Avadi Resolution of the Indian National Congress declared the establishment of a socialistic pattern of society as the aim of economic and industrial policy of the government. The Resolution made it clear that "the State will necessarily play a vital part in starting and operating big projects through overall controls of resources, trends and essential balances in the economy ... with strategic controls over the private sector to prevent the evils'of anarchic industrial development." Consequently, the Parliament adopted on 30th April, 1956, a new Industrial Policy Resolution, the main features of which were as follows :

The industries were classified into three categories :

Schedule A : Those industries which were to be the sole responsibility of the State. This list included 17 industries - arms and ammunition, atomic energy, iron and steel, heavy machinery required for mining, heavy electrical industries, coal, mineral oils, mining, iron ore and other important minerals (like copper, lead and zinc, etc.), aircraft, air transport, railways, ship-building, telephone, telegraph and wireless equipment, and generation and distribution of electricity.

Schedule B : There were about a dozen industries in the list, where the State might establish new units or existing units might be progressively nationalised. In these industries, the private sector was guaranteed plenty of opportunity to develop and expand. It included the following industries : Other mining industries, aluminium and other non-ferrous metals not included in Schedule A, machine tools, ferro alloys and steel tools, chemicals, antibiotics and other essential drugs, synthetic rubber, pulp, road and sea transport.

Schedule C : Industries in this Schedule consisting of the rest of the industries, not included in Schedules A and B, would be in the private sector and would be subject to the social and economic policy of the government. The Industries

(Development and Regulation) Act of 1951 and other relevant laws would apply to these industries.

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Among other things, the resolution emphasised that fair and non-discriminatory treatment would be given to private sector industries and their development, encouraged by developing transport facilities and by providing financial assistance. The regulation recognised that the private sector by itself could not bring about rapid industrialisation of the country. It, therefore, provided vital and expanding scope for public sector industries. At the same time, private sector was assured of an important place in the industrial structure of the country. The resolution also acknowledged the important role of village, cottage and small scale industries.

The resolution accorded a prominent role to the public sector. The apprehensions of the private sector that the public sector would develop at their cost did not turn out to be correct and private sector found ample scope for its expansion.

Industrial Policy Resolution, 1977

The new Industrial Policy of 1977 was very critical of the 1956 Resolution on the ground that "Unemployment has increased, rural-urban disparities have widened and the rate of real investment has stagnated. The growth of industrial output has been no more than three to four per cent per annum on the average. The incidence of industrial sickness has become widespread and some of the major industries are worst affected. The pattern of industrial costs and prices has tended to be distorted and dispersal of industrial activity away from the urban concentration has been very slow". Other points of criticism were that international giant industrial concerns had penetrated the protected Indian market and monopolistic power of the large business houses had increased. The new policy focused on the development of small scale sector, cottage and household industries and the tiny sector. It further provided for using provisions of the Monopolies and Restrictive Trade Practices Act against expansion of larger industrial houses. The public sector was to be used for providing strategic goods of basic nature gnd also for maintaining supplies of essential goods. In areas where foreign collaboration was not required because of the availability of indigenous technical know-how, such collaboration agreements were not be renewed.

Apart from giving greater importance to village and small scale sector and at the same time instilling a sense of fear among large industrial houses, the new policy did not lead to much achievements.

Industrial Policy of 1980

Outlining the Industrial Policy of 1980, it was stated, "The Industrial Policy announcement of 1956 ... reflects the value system of our country and has shown conclusively the merit of constructive flexibility, In terms of this resolution, the task of raising the pillars of economic infrastructure in the country was entrusted to the public sector for reasons of its greater reliability; for the very large investments required and the longer gestation period of the projects for economic development. The 1956 Resolution, therefore, forms the basis of this statement. The policy accorded priority to optimum utilisation of installed capacity, balanced regional development, agro-based industries, export-oriented industries and promoting "economic federalism" by equitable spreading of investment over small but growing industrial units in urban as well as rural areas.

Private Sector

The concept of mixed economy adopted by India implied the rejection of the idea of immediate nationalisation of the private sector. It further implied a regulated private sector and the fast expanding public sector, especially in basic and heavy industries such as steel, engineering, fertiliser, power and transport. The private sector is dominant in agriculture and allied activities in retail and most of the wholesale trade, cottage, rural and small scale industries, most of consumer goods industries like textiles, jute, cement, sugar, radio receivers and numerous other consumer goods industries. A number of capital goods industries such as engineering, chemicals, electionics, etc., are also in the private sector. Most of the professional services are in the private sector. It can be said that private sector in India including agriculture and trade, contributes nearly 80 per cent to the national income whereas the public sector contributes the balance 20 per cent of the national income.

Private sector in India can be divided into two parts : *(a)* the organised sector and *(b)* the unorganised sector. The organised sector is modernised, adopts capital intensive methods of production, and has easy access to the capital markets and banks. It uses modern means of communications, and adopts all methods to manipulate demand to suit its needs. Profit motive is the basis of all the activities of this sector. The main method of planning for this sector is to so organise the economy that the producers get sufficient facilities and inputs, and find it most profitable to so conduct their activities as to reach the plan production targets. The more risky, and long-term gestation projects and infrastructure are left to the public sector.

In an open economy, the most intensive competition could come from abroad for goods produced by the organised sector. In its desire to industrialise rapidly, India wanted to develop many industries which could not stand competition from abroad. Exchange scarcity and the need to conserve foreign exchange led to import controls. Import substitution was encouraged irrespective of the comparative advantage. Industries needing imports for their production were permitted on condition that they indigenised rapidly and costs hardly entered into consideration. Since 1960, industrial units with investment of more than a certain sum had to apply for a licence for manufacturing a new article or for substantial expansion. According to Prof. D.T. Lakdawala : "There was sometimes overlicensing also, but at the stage when it was found that there was excess production, issue of new licences was stopped till demand overtook supplies. Import pre-requisites for production, import of technology, foreign capital and collaboration, were all sparingly permitted and allowed generally after a great time lag so that production in the organised sector became highly profitable. The profits were, however, often enough not fully reflected in the books of account. Price and distribution controls only generally served to drive production and profits underground and divert production to channels less amenable to controls. The whole economy began to seethe with corruption and black market, and bureaucracy and political machinery became a big rentier group."

Unorganised private sector is spread over a vast area and it has been difficult to enforce policy interventions. Secondly, due to lack of awareness, education and training, and the absence of catalytic agencies, this sector has not been able to take full advantage of the facilities extended to them. Thirdly, organised sector often competes and also complements the unorganised sector. Managing these interrelationships has been difficult. For example, incentives intended for handloom sector have often been siphoned off by the powerloom sector. The unorganised sector often is a poor-technology, poor-remuneration sector and is often exploited in trading, credit, etc. Radical policy changes are, therefore, called for to make this sector viable.

Publlc Sector

Prior to Independence, there was practically no such thing as the public sector in India. Railways, posts and telegraphs, ordnance factories and a few assorted factories constituted the public sector. Only after the Industrial Policy Resolutions of 1948 and 1956, the government made concerted efforts to make the public sector the dominant sector in the Indian economy. It was supposed to have control over "the commanding heights" of the economy. Among the important objectives assigned to the public sector are :

(1) to help in the rapid economic growth and industrialisation of the economy and create the necessary infrastructure for economic development;

(2) to earn return on investment and thus generate resources for development;

(3) to promote redistribution of income and wealth;

(4) to create employment opportunities;

(5) to promote balanced regional development;

(6) to assist the development of small-scale and ancillary industries; and

(7) to promote import substitution, save and earn foreign exchange for the economy.

The following table gives us an idea of the growth of public sector enterprises in India :

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Growth of Public Sector Undertakings in India

	Total Investment (Rs. in crores)	*No. of enterprises*
1	2	3
As on 1.4.1951	29	5
As on 1.4.61	948	47
As on 1.4.1980	18,150	179
As on 1.4.91	1,01,797	236

These are the Central Government public sector enterprises. In addition, there are a large number of various State Government public enterprises like irrigation projects, State Electricity Boards, State Road Transport Corporations, State Financial Corporations etc. These enterprises also exclude departmental undertakings like railways. The enterprises also included in the table above, large as they are - account for only about half of the gross capital formation of all public enterprises.

Major contribution of the public sector has been through the development of new sophisticated industries, and giving a more mass welfare bias to the existing services. New skills were created and professional management in industry which was hitherto mainly confined to multi-nationals, became widespread. Ever since the third plan, the public sector investment largely accounts for somewhat more than half the total plan investment. Apart from the normal government activities and departmental undertakings, basic and heavy industries like steel, heavy electrical and nonelectrical machinery, machine tools, etc., were developed in the public sector. These were industries which would take a long time to fructify and were risky. It was felt that, by and large, private industry would not be attracted to them or would only be prepared to come on terms which would not be acceptable to the nation. Existing units in the private sector were left untouched with the exception of banking, insurance, oil, coal and power. Many of the sick units providing employment on a large scale were also nationalised.

Financial performance of public sector enterprises has been quite disappointing. Excluding the oil sector, which is highly profitable, the other public sector enterprises have been incurring net losses or making only a marginal profit. Even if the oil industry is included, the overall ratio of net profits after tax as a percentage of net worth are just about 4.5 per cent in 1990-91 as against 5.4 per cent in 1989-90. The sectors which have been heavily losing include fertilisers, heavy engineering, consumer goods, urban transportation, coal, textiles, and contract and construction Some of the factors which are responsible for the poor performance of the public sector are as follows :

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(i) Administered pricing policy of the government in respect of urban transportation, coal, fertiliser industries, etc. is fully responsible for non-recovery even of costs of production. The concerned public enterprises can hardly be called inefficient, even though they are unprofitable.

(ii) The nature of a large number of enterprises is such that they have long gestation periods and quite often there are heavy cost overruns because of the gestation beriods and intervening inflation.

(iii) Excessive manpower recruitment due to political decisions.

(iv) Under utilisation of capacity.

(v) Excessive government controls in the matter of investment decisions, fixation of selling prices, wages and income policies, location decisions and personnel policy.

The failures of the public sector are largely rooted in the political and bureaucratic controls clamped on the enterprises. Unless genuine autonomy is given to the professional management of the public sector in all matters which are properly speaking business decisions, there is hardly any future for the public sector.

Mixed Economy : Recent Trends and An Appraisal

The decade of the 1980s witnessed a rapid expansion of the industrial activity in India which can be attributed mainly to the reforms undertaken in both industrial and trade policies. Further policy changes became necessary for accelerating the industrial growth in the 1990s in order to consolidate the achievements of the last decade. The new policy initiatives were announced by the government in the Statement on Industrial Policy on 24th July, 1991. The policy deregulates the economy in a substantial manner. The major objectives of the new policy package will be :

- to build on the gains already made,
- correct the distortions or weaknesses that might have crept in,
- maintain sustained growth in productivity and gainful employment,
- further encourage growth of entrepreneurship and upgrade technology in order to attain international competitiveness. All sectors of industries whether small, medium or large, belonging to the public, private or cooperative sector are to be encouraged to grow and improve on their past performance.

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The provisions of the new policy are :

(i) Industrial licensing was abolished for all projects except in 18 industries where strategic or environmental concerns are paramount or where industries produce goods with exceptionally high import content. With this, 80 per cent of industry has been taken out of the licensing framework.

(ii) The MRTP Act was amended to eliminate the need for prior approval by large companies for capacity expansion or diversification. This will enable Indian firms to become large enough to compete effectively in the global markets.

(iii) The tequirement of phased manufacturing programmes was discontinued for all new projects.

(iv) Areas reserved for the public sector were narrowed down, and greater participation by private sector was permitted in core and basic industries. In place of the seventeen areas earlier reserved for investment by the public sector, only eight such areas are now reserved. These eight are mainly those involving strategic and security concerns.

(v) Government clearance for the location of projects was dispensed with except in the case of 23 cities with a population of more than one million.

(vi) A National Renewal Fund has been set up to ensure that the costs of technological change and modernisation industry would not be borne by the workers. It will be used to provide a safety net to workers in sick an dnon-viable enterprises, and to finance their retraining and redeployment.

Along with a reform of industrial policies, steps were taken to facilitate the inflow of direct foreign investment. These non-debt-creating inflows will reduce reliance on fixed interest-debt and also bring in new technology, marketing expertise and modem managerial practices. The following measures were taken in this regard :

(i) The limit of foreign equity holdings was raised from 40 to 51 per cent in a wide range of priority industries.

(ii) The Foreign Investment Promotion Board has been set up to negotiate with large international firms to expedite the clearance required for projects in non-priority industries.

(iii) Technology imports for priority industries are automatically approved for royalty payments upto certain limits.

(iv) In order to make the economy competitive with the rest of the world, rupee was made partially convertible. This will boost our exports and also promote efficient import substitution.

(v) The practice of government control over capital issues, as well as over pricing of issues including fixation of premium, has been done away with.

(vi) Import duties were substantially reduced and rationalised in order to ensure that the high tariff walls do not perpetuate a high cost non-competitive Indian industry.

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Thus deregulation will reduce the role of government regulatory agencies. Delays in project implementation will be greatly reduced. Increased competition will lead to enhanced pressure on enterprises to reduce their costs and to improve quality.

The public sector was originally conceived as holding the commanding heights of the economy and leading to technological advance. The public sector has contributed significantly to the diversification of India's industrial structure. But its contribution in terms of generating internal resources for further expansion has fallen far short of expectations and its inability to do so has now become a major constraint on economic growth. It is imperative that the public sector attains the objectives originally set for it. This will require a sustained improvement in productivity and profitability. The budget support to public sector enterprises will need to be scaled down and they will be expected to maintain financial discipline in their operations.

In 1991-92, the Government undertook a limited disinvestment of a part of public sector equity to the public through the public financial institutions and mutual funds in order to raise non-inflationary finance for development. This process of disinvestment in the public sector enterprises is being continued in 1992-93. It is expected that disinvestment will also bring in greater public accountability and help to create a new culture in their working which would improve their efficiency.

Recognising that sickness is a serious problem in many public sector units, the Government amended the Sick Industrial Companies Act to bring public sector undertakings also within its purview. This makes the sick public sector units subject to the same discipline as private sector units including reference to the Board of Industrial and Financial Reconstruction (BIFR) for identification of a viable restructuring package or closure as the case may be.

Indian experience has shown that the pursuit of a mixed economy framework in a developing economy is a feasible proposition. It can lead to a modest rate of growth and also substantial growth of productive capacify in key sectors of the economy. Values of a social democracy have been assiduously nurtured and significant results have been achieved in reducing inequalities through various poverty alleviation programmes. Recent changes in the direction of economic policy have, however, led many'to doubt whether the Nehruvian model of mixed economy and all that went with it, is still in place. If mixed economy is viewed as a path which avoids the rigours of both capitalism and socialism, then mixed economy has served the country well and may continue to do so in future. In spite of liberalisation or deregulation, we have not moved to a state of market economy. All that has happened is that we have started questioning and even demolishing the complex regulatory frameworks administered by an overloaded bureaucracy which failed to orient itself to the task of development administration. Controls and regulatory mechanisms never formed part of the core of development strategy, being themselves largely an inheritance of the war economy which the British Government had clamped on the country only to maximise procurement for military consumption. Removal of these controls will only make the economy more vibrant and dynamic without losing sight of the socio-economic perspectives it has set for itself.

4.5 DUALISTIC NATURE OF INDIAN ECONOMY

Economic dualism is a way of conceptualizing the existence of two (sometimes more) separate but symbiotic sets of economic processes or markets within the same political or national social framework. In Third World societies, for example, a dual economy is formed by the coexistence of peasant subsistence agriculture and cash production of basic commodities or industrial goods for the international market. An analogous division exists in highly industrialized economies between the corporate core and peripheral firms and labour-markets.

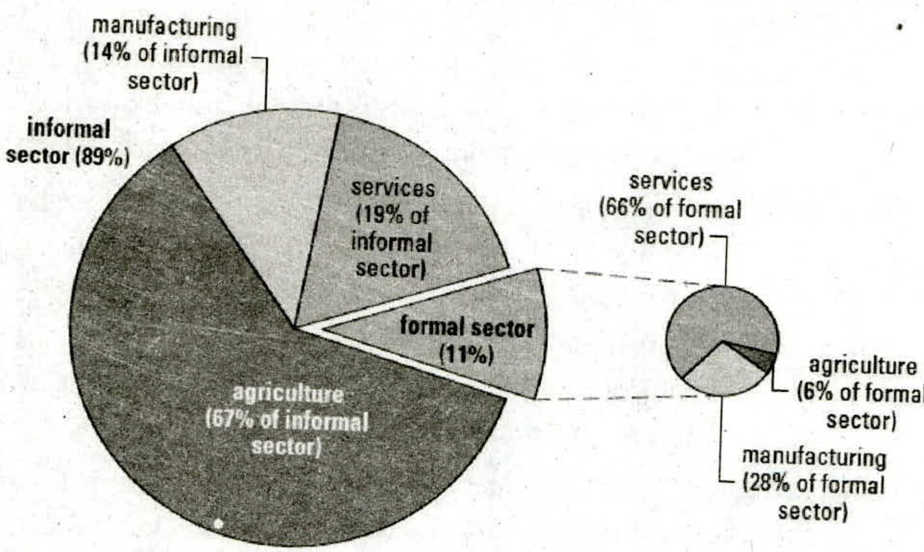

Figure 1. India's Dualistic Economic Structure

India's economic dualism is stark, with less than 3 percent of the workforce employed in the formal private sector and the bulk of the workforce in the informal sector. Formal versus informal employment is a very imperfect proxy for India's dual economic structure.6 According to available data, the formal sector accounts for just 11 percent of a workforce of roughly 460 million; 89 percent of

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workers are in the informal sector. In agriculture only 1 percent of employment is formal, and even in manufacturing the share is just 19 percent. By far, most formal employment (66 percent) is in the tertiary or services sector, in which government accounts for the majority. Roughly 50 percent of workers are self-employed.

The bulk of selfemployment is in low-productivity subsistence agriculture and services. Figure 1 summarizes this dualistic structure of the Indian economy. India needs to absorb workers out of agriculture, into manufacturing and services. The bulk of the Indian workforce is engaged in agriculture. Although the share of workers in agriculture has been declining, the decline has not been as rapid as might have been expected relative to other developing countries. By 1999–2000, roughly 60 percent of the overall workforce remained in agriculture. Part of the problem has been that manufacturing employment has not increased much as a share of total employment.

As a result, most people leaving agriculture have gone into construction and the service sector—especially trade, hotels, and restaurants; personal, business, and community services; and transport, storage, and communications.

4.6 SUMMARY

- India economy, the third largest economy in the world, in terms of purchasing power, is going to touch new heights in coming years. As predicted by Goldman Sachs, the Global Investment Bank, by 2035 India would be the third largest economy of the world just after US and China.
- The rate of growth improved in the 1980s. From FY 1980 to FY 1989, the economy grew at an annual rate of 5.5 percent, or 3.3 percent on a per capita basis. Industry grew at an annual rate of 6.6 percent and agriculture at a rate of 3.6 percent. A high rate of investment was a major factor in improved economic growth. Investment went from about 19 percent of GDP in the early 1970s to nearly 25 percent in the early 1980s.
- Mixed economy implies demarcation and harmonisation of the public and private sectors. In it, free functioning of the market mechanism is not permitted and the government intervenes or regulates the private sector in such a way that the two sectors become mutually re-inforcing. A mixed economy represents an achievable balance between individual initiative and social goals.
- Economic dualism is a way of conceptualizing the existence of two (sometimes more) separate but symbiotic sets of economic processes or markets within the same political or national social framework. In Third

World societies, for example, a dual economy is formed by the coexistence of peasant subsistence agriculture and cash production of basic commodities or industrial goods for the international market.

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4.7 REVIEW QUESTIONS

1. Discuss the trends of India's economic development in 1980s.
2. What were the major impacts of economic reform of 1991?
3. What do you mean by mixed economy?
4. What are the salient features of mixed economy?
5. Describe the recent trends of Indian Economy.

4.8 FURTHER READINGS

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UNIT– V

NATIONAL ECONOMIC PLANNING

STRUCTURE

5.1 LEARNING OBJECTIVES

After going through this unit, students will be able to :

- state the fundamental concept of planning;
- know the important features of planning in India;
- discuss the role of National Development Council of India;
- evaluate the five year plans of India.

5.2 INTRODUCTION

Planning represents the ethos of the age. The debate as well as the faith in planning moves almost like pendulum from one end to the other. Intellectual origin of planning can be traced back to many sources and circumstances but the primary impetus for planning came from the Soviet experience. The importance of planning was felt during the worldwide economic depression in the 1930s. It also led to prolonged debate on the need and the nature of planning.

Many countries in Europe and elsewhere resorted to some kind of planning with an eye on military preparedness. The widespread destruction during World

War II in many countries in Europe and elsewhere projected the ımportance of planning as a tool for reconstruction and the rehabilitation of the devastated economies.

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After World War II, where many countries in Asia and Africa attained independence, planning was regarded as an important and effective tool for rapid socio-economic development. It was recognised that planning in thp developing countries attained a central positioh of importance because in the developing societieś, state has to play a much more activist role in the economy in order to fulfil the expectations of the people.

5.3 MEANING OF PLANNING

Planning is preparation for action. Planning is a conscious effort to achieve desired ends. It is a rational method of application of resources for the fulfillment of specific objectives. Planned economy would mean an economic system in which Central Administration the government controls and regulates production, distribution, prices, etc., through deciding on acts, purposes and strategies for development before hand. The term planning has been widely defined and in most cases the definition camed the same viewpoint. Dimock defines planning as 'the use of rational design as contrasted with chance, the reaching of a decision before a linesf action is taken instead of improving after the action has started'. Millett defines, "Planning is the process of determining the objectives of administrative effort and of devising the means calculated to achieve them". According to Urwick, "Planning is hndamentally an intellectual process, a mental pre-disposition, to do things in an orderly way, to think before acting, and to act in the light of facts rather than guesses. It is the antithesis of speculative tendency." Seckler-Hudson defined it as "the process of devising a basis for a course of future action'" Thus, planning is 'thinking ahead' or thinking before doing. It is an intellectual process of determination of course of action undertaken in a conscious manner.

In short, planning is the conscious process of selecting and developing the best course of action to accomplish defined objective. Planning is thus the exercise of foresight and network of action for defined goals.

5.4 NEED FOR PLANNING

The growth of human knowledge and its extending control over the environment made human beings realise the increasing importance of planning in a society. Planning is no more restricted to communist methodology nor associated with totalitarianism and authoritarianism. The old prejudice that plannifig is unfit for democratic way of living is fast vanishing. Today planning has become popular, the politicians at the highest level plan a policy manning the

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hture of a nation, or seeking the survival of humanity. Every aspect of governmental action is relating the hture of a nation, or seeking the survival of humanity. Every aspect of governmental action is to be planned - objectives, policies, organisation, finances, work methods, incentive systems and public relations. Programmes based on well-reasoned priorities are invaluable for such countries as they cannot afford to waste time, people or materia1. Drawing up plans, usually in the form of five year programmes for public expenditures, in particular relating to capital formation, has in many developing countries become the accepted practice under which the responsible government agencies must look ahead, determine their long range objectives and agree upon certain priorities in the light of the probable demands of the various sectors of the economy. The programmes of the individual government agencies are usually coordinated by a central planning office in the light of overall available financial resources.

5.5 TYPES OF PLANNING

As the planning is of continuous process it is impossible to suggest water-light categories of planning, None of the types of planning are self-contained, they are mere ideal types. Following may be stated as the types of planning :

(a) Overall Planning

(b) Limited Planning

(c) Administrative Planning

(a) Overall Planning: The overall planning commonly called socio-economic planning is more comprehensive. It is more than laying down a few economic targets here and a kw physical targets there. It is an overall effort to achieve an all round development of the country. This type was first adopted by Stalin in USSR and being used in Russia since then. Most of the third world countries are adopting this type. Four years and seven year plans are manifestations of this type.

(b) Limited Planning : Limited planning does not centralise all the socioeconomic activities at one focal point. The state opting for this type of planning selects the main obiectives which the society as a whole considers fundamental. Through proper planning and regulation of the activities of the individuals and group it directs the life and activity of the society in such a way that those objectives are attained.

(c) Administrative Planning: Government planning is nothing but administrative planning. The administrative planning is mainly concerned with administrative programmes. It seeks to provide a broad framework for action as it defines major objectives, establishes inter-bureau policy and links departmental policy and programmes with the related depaments. Its main purpose is to give a detailed shape to the policy plan, to make objectives clearer and more workable.

Administrative planning may be divided into four different phases, *viz.*, policy planning, administrative planning, programme planning and operational planning. A brief explanation of these phases is given below:

(i) *Policy Planning:* Policy planning is concerned with developing broad general outlines of government in power.

(ii) *Administrative Planning:* According to Pfiffner it seeks 'to provide a broad framework for action by defining major objectives, establishing inter-bureau policy and to a lesser extent, linking departmental policy and programmes with those of related departments'. This policy is formulated by the chief executive in consultations with the departmental heads to give effect to the policy planning and to make objective clearer and more workable for the public officials.

(iii) *Programme Planning:* According to Millett, it is 'concerned with the preparation of the specific purposes to be realised and the procedures to be employed by administrative agencies within the framework of existing public policy'. It is an overall review of the proposed programme to determine the volume of services involved, the resources in man and money needed to provide them, the general procedures required and the organisation structure necessary to use these resources to the best advantage. It is a detailed plan for implementing the programmes in a particular department.

(iv) *Operation Planning:* According to Pfiffner, it is 'concerned with the systematic analysis of an authorised programme and determination of the detailed means of carrying it out. After the objectives have been determined and the means and methods of achieving those objectives have been found, then comes operational planning by the divisional and sectional heads who lay down specific procedures and how those have to be used to save time, accelerate production and increase net output. The different units are assigned specific functions and their performance measured in terms of time, quantity and quality of production and overall product. It is, in fact, a 'workshopstage' of the programme planning.

Besides the above types of planning, several new types of planning have emerged in the recent years known as perspective planning, rolling plan, short range or long-range planning, and district planning or grass root planning.

5.6 GENESIS OF PLANNING IN INDIA

India has attempted to bring about rapid economic and social development of the country through a planned effort. Although an awareness of the importance of planning was manifest in the pre-independence era, realistic and ambitious planning on an all-India basis could not be started effectively until India became

NOTES

free in 1947 and its major problems growing out of the partition of the country and the task of unification of the native Indian States were resolved.

The first effort at introducing social planning in India was made by an individual noted for his pioneering zeal and breadth of vision, the late Dr. M. Visveswarayya. In 1936 he published an essay underlining the desirability and feasibility of planning for industrialisation of the country. For the formulation, implementation and administration of the plan he had suggested formation of a 60-member advisory body, with political leaders, economists, businessmen, administrators, etc., and a Planning Commission of five to seven members for discharging day-to-day functions. He also recommended the setting up of a development department at the Centre and Economic Councils in the provinces. Though interesting as an intellectual exercise, this could not directly influence any social actton or ady governmental move.

In 1937, soon after the assumption of power in the provinces, the Working Committee of the Indian National Congress initiated planning preliminaries by adopting a resolution which recommended to the Congress Ministry the appointment of a committee of experts to consider urgent and vital problems the solution of which wad necessary to any scheme of national re-construction andg social planning. Following this resolution, a Planning Committee was constituted by Subhash Chandra Bose, the then President of the Indian National Congress under the Chairmanship of Jawaharlal Nehru. Later in 1944, the Government established a Planning and Development Board and publishkd three private development plans - the Bombay Plan, the Gandhi Plan and the People's Plan. A Planning Advisory Board was also constituted in 1946 after the establishment of the interim government headed by Jawaharlal Nehru. These pre-Independence efforts at planning tend to bring out a certain unity of approach to the problems of national reconstruction in as much as each of these plans mooted not only had certain objectives in common but also sought to achieve them through similar means. All the plan proposals explicitly accepted the rapid improvement of the living standards of the people as the central objective of development.

The central theme of public policy and philosophy of national planning in India since Independence has been promotion of balanced economic development so as to provide foundations for sustained economic growth; for increasing opportunities for gainful employment, for promoting greater equality in incomes and wealth and raising living standards and working conditions for the masses. Even the Directive Principles of State Policy carries the same spirit of balanced economic development. The Constitution of India includes the subject of social and economic planning in the concurrent list. The legal basis for national planning for the country as a whole, therefore, has been provided through a parliamentary statute on the subject. The discussions on the setting up of a planning machinery in 1949 had envisaged the establishment of a Planning Commission and the creation of National Economic Council which would work as an organ of intergovernmental cooperation in the economic and social fields.

Following the recommendations of the Advisory Planning Board of 1946, the Planning Commission was established by a Cabinet resolution of March 15, 1950. The National Development Council was later constituted in 1952.

5.7 PLANNING MACHINERY AT CENTRAL LEVEL

The Planning Commission is the machinery for planning at the central level. The Planning Commission is essentially a non-political advisory body which makes recommendations to the government. It has no sanction of its own. Care has been taken to organise it neither as a pure research institute, out of touch with the various political, economic or administrative problems nor as an administrative ministry, which is too closely involved in day-to-day affairs and is prone to lack the perspective and detachment required of a national planning agency. Now we are in the Tenth Plan process.

Organisation and Role of the Planning Commission

The Planning Commission is a multi-member body and the number of members has varied from time to time. In the 'initial year of its inception, the Commission concentrated mainly on plan formulation. It was composed of only full-time members. The Prime Minister as Chairman of the. Commission provided the needed close relationship with the Central Government. But over the years the Commission got invdlved in a number of administrative matters and also gathered to itself certain functions of a purely executive nature. The composition of the Commission underwent a substantial change and a number of Union Ministers were appointed as a part time member of the Commission. The Planning Commission was reconstituted in August 1967 on the lines suggested by the ARC except that the Prime Minister continued to be the Chairman of the Commission and the. Union Finance Minister, its part-time member. In addition 'to full-time members, which varies from three to eight, other Ministers of Central Government have also been appointed as Members for certain specific reasons connected with the portfolios. The appointment of Ministerial Members and Full Members varies according to the party, which comes to power at the center.

Members of the Planning Commission

The composition of the Planning Commission as in 2004 is as follows :

- Prime Minister - Chairman;
- Deputy Chairman;
- Minister of State (Planning);

- Seven Full time Members; and
- Member-Secretary.

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The Planning Commission functions through several divisions and sections, each headed by a Senior officer, usually designated as Advisor or Chief or Consultant or Joint Secretary or Joint Advisor. The full time members of the Planning Commission assume responsibility for the day-to-day work of particular divisions, although the Commissioh functions as a composite body and tenders advice jointly on all-important matters.

The Prime Minister of India being the Chairman of the Planning Commission ever since its inception has added considerably to the prestige of the Commission and helped it a great deal in its coordinating functions at the political level.

Role of Planning Commission

The Planning Commission has been assigned a lot of functions.

(1) The Commission makes an assessment of the material, capital and human resources of the country, including technical personnel and investigate the possibilities of augnlenting such of these resources as are found to be deficient in relation to the nation's requirements;

(2) It formulates a plan tor the most effective and balanced utilisation of the country's resources;

(3) On a determination of priorities, the Commission defines the stages in which the plan should be camed out and propose the allocation of resources for the due completion of each stage;

(4) It indicates the factors which are tending to refund economic development and to determine the condition for the successful execution of the plan;

(5) It also determines the nature of machinery which would be necessary for securing the successful implementation of each stage of the plan in all its aspects;

(6) It appraises from time to time the progress achieved in the execution of each stage of the plan and to recommend the adjustment of policy and measures that such appraisal might show to be necessary;

(7) Moreover, it makes lsuch interim or ancillary recommendations as might be appropriate on the prevailing economic conditions, and current policies.

In addition to the above, the Government of-India Allocation of Business Rules, has assigned responsibility to the Planning Commission in respect of :

(*a*) Public cooperation in national development,

(*b*) Hill Area Developmpt Programme,

(*c*) Perspective planning,

(d) Directorate planning, and

(e) National Informatics Centre (NIC)

It is, thus, that the Planning Commission was established as a staff agency to prepare national plan for economic development of the country.

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Internal Organisation

The Office of the Planning Commission consists of three types of divisions (1) General Division, (2) Subject Division and (3) Services Division. The work of the first two types of divisions is primarily technical, of the third administrative or secretarial.

The General Divisions are concerned with certain special aspects of the entire economy. These are :

(1) Economic Divisions: Financial Resource Divisiort, Development Policy Division, International Economics Division and Socio-Economic Research Unit;

(2) Perspective Planning Division;

(3) Labour, Employment and Manpower Division;

(4) Statistics and Surveys Division;

(5) State Plans Division, including multi-level planning. Border Area Development Programme, Hill Area Development and North Eastern Region (NER);

(6) Project Appraisal and Management Division;

(7) Monitoring and Information Division;

(8) Plan Coordination Division; and

(9) National Informatics, Yojana Bhawan Unit.

Among the General Divisions, the perspective Planning Division provides general guidance for work on long-term development which is undertaken in detail in different divisions. Coordination of work within the Planning is undertaken by the Plan Coordination Division.

Subject divisions are concerned with certain specified fields of development. Some Subject Divisions are:

(1) Agriculture Division

(2) Backward Classes Division

(3) Communication & Information Division

(4) Development Policy Division

(5) Education Division

(6) Environment & Forest Division

(7) Financial Resources Division

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(8) Health, Nutrition & Family Welfare Division

(9) Housing, Urban Development & Water Supply Division

(10) Industry & Minerals Division

(11) International Economic Division

(12) Labour, Employment and Manpower Division

(13) Multi-level Planning Division

(14) Monitoring Division

(15) Perspective Planning Division

(16) Plan Coordination Division

(17) Power & Energy Division

(18) Programme Evaluation Organisation

(19) Project Appraisal & Management Division

(20) Rural Development Division

(21) Science & Technology Division

(22) Social Developmetn & Women's Programme Division

(23) Social Welfare Division

(24) State Plans Division

(25) Transport Division

(26) Village & Small Enterprises Division

(27) Water Resources Division

(28) Administration & Services Division

(29) Other Units
- Border Area Development Programmes
- Socio-Economic Research Unit
- Western Ghat Development

The Subject Divisions of the Planning Commission maintain close contact with their counterparts in the various Ministries and the State Governments. They are responsible for collecting, processing and analysing all relevant information required for the formulation, processing and evaluation of the policies and programmes included in the Plan.

Advisory Board on Energy which was functioning as a Unit under the Cabinet Secretariat was transferred to the Planning Commission with effect from 1st September 1988. Consequently, a new technical division, *viz.*, 'Energy Policy Division', has been setup in the Planning Commission. The National Informatics Centre, which was earlier under. the Department of Electronics, was transferred to the Planning Commission with effect from 14th March 1988. Since then, it has become a part of the Planning Commission. The Computer Services Division, which was earlier functioning under the Advisor (Monitoring and Information) has now been merged with the National Informatics Centre. Apart from research and plan formulating structural units described above, the Planning Commission has Services Division which is concerned with the administration, accounts and general services, required for the commission. The general administration including accounts is under the overall charge of the Secretary, Planning Commission. The Accounts Branch functions with an Intcmal Finance Advisor and Controller of Accounts who works under the ambit of General Administration.

Committee on Plan Projects

An analysis of the Second Five Year Plan indicates the traditional view of economy, namely reduction in the staff strength, which has become outmoded in the context of the Plan. The real issue in the plan expenditure requires a great deal of thought and effort in standardising the practices and procedures of execution in order to ensure realistic estimation of costs; to achieve basic economy based on scientific development of the techniques from the inception of the projects; and to set up norms and standards for evaluation. It was against such background that the COPP was established in 1956 for exploring the possibility of achieving economy consistent with efficiency in the projets included in the second Plan. It had the Home Minister as Chairman and Ministers for planning and finance and Deputy Chairman, Planning Commission as members. In addition, the Prime Minister, as Chairman of the National Development Council nominated two Chief Ministers of the States as members of the Committee for each class of Projects. The Union Member concerned with a project under investigation was also a member of the Committee.

Some of the important functions entrusted to the COPP were to :

(a) organise investigation, including inspection in the field of important projbcts, both at the Centre and in the States, through specially selected teams.

(b) initiate studies with the objectives of evolving a suitable form, of organisation, methods, standards and techniques for achieving economy, avoiding waste and ensuring efficient execution of projects.

(c) promote the development of suitable machinery for continuous efficiency audit in individual projects and in agencies responsible for their execution.

(d) secure the implementation of suggestions made in reports submitted to it and to make the results of studies and investigations generally available and

(e) undertake such other tasks as the National Development Council may propose for the promotion of economy and efficiency in the execution of the Second Five Year Plan. The COPP, as a separate entity was wound up in 1970.

PROGRAMME EVALUATION ORGANISATION

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Evaluation has been an essential aspect of formulation and execution of development plans and programme? since the beginning of the plan process. The Programme Evaluation Organisation was set up in 1952 as an independent organisation working under the general guidance and direction of the Planning Commission. Initially, it was entrusted with the specific task of evaluating the Community Development Programme and other intensive area development schemes. But in recent years the organisational sphere of work and activities has been extended. and diversified to cover evaluation studies of Plan/Programmes Schemes in a variety of sectors, *viz.*, Agriculture, Cooperation, Rural Industries, Health, Family Welfare, Rural Development, Public Distribution, Tribal Development, etc.

The Programme Evaluation Organisation evaluates projects and programmes periodically and undertakes ex-post evaluation of a few selected major projects in different sections.

The main function of the Prneramme Evaluation Organisation is to undertake evaluation studies which encompass: (1) assessment of programme results against the stated objectives and targets; (2) the measurement of their impact on beneficiaries; (3) the impact on the socio-economic structure of the community; (4) the delivery of service to the target group. In addition to this Programme Evaluation Organisation has also been discharging two more functions, *viz.*, *(a)* giving technical advice and guidance to the State Evaluation Organisations and *(b)* imparting training to the State Evaluation Personnel.

5.8 ROLE OF NATIONAL DEVELOPMENT COUNCIL (NDC)

The NDC is headed by the Prime Minister and consists of the Central Ministers, Chief Ministers of the States and Lt. Governors, Administrators of Union Central Administration Territories and Members of the Planning Commission. It is a nodal body, which considers and approves policies and strategies of development planning. The Secretary of the Planning Commission acts as the Secretary of the Council. From a strictly legal point of view, NDC is essentially an advisory body. Since, it comprises the highest political authority in the country it has assumed an important position, The meetings of NDC are held at least twice a year. The role of the NDC is discussed briefly :

(i) It acts as a kind of bridge between the Union Government, the Planning Commission and the State Governments.

(ii) NDC prescribes guidelines for the formulation of National Plan including the assessment of resources for the Plan.

NOTES

(iii) NDC considers the National Plan as formulated by the Planning Commission.

(iv) NDC considers important questions of social and economic policy affecting national development.

(v) It also reviews the work of the Plan from time to time and recommends such measures as are necessary for achieving the aims and targets set out in the national plan including measures to secure the active participation and cooperation of the people, improve the efficiency of the administrative services, ensure the fullest development of the less advanced regions and sections of the community and, through sacrifice, borne equally by all the citizens, build up resources for national development.

The NDC gives its advice at various stages of the formulation of the Plan and it is only after its approval has been obtained that a Plan is presented to the Parliament for its consideration. The Council has been largely responsible for giving Indian plan a national character and for ensuring unanimity in approach and uniformity in working.

5.9 PROBLEMS OF CENTRALISED PLANNING

Ever since 1951, when the First Five Year Plan went into operation, right through the formulation of the Seventh Five Year Plan in recent years, India has been following national policy of central planning for controlled and unified development. This has given rise to a number of problems in administration:

(1) Whether planning should come from above or below?

(2) To what extent should the society be subject to planning and how the people should be associated in the formulation and execution of plans?

(3) What modification should be made in the relationship between the Centre and the States which have distinct powers in a federal constitution so as to make centralised plqnning effective?

(4) Who should constitute the members of the planning body?

(5) If the planning body is set up outside the normal executive organisation of the government, as the Planning Commission in this country is, should its advisory services be arranged in the existing organisation or should it have an administration of its own for this purpose?

(6) To what extent should the Planning Commission concern itself with the details of the Plan?

(7) What should be the Planmng Commission's responsibility in reviewing the progress of the Plan and what reports is the Planning Commission entitled to ask from the executive authorities?

(8) What is the mechanism for dove-tailing the work of the planning machinery in the states with thak of the centre, etc.?

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Although some of these problems have been taken care of in the initial establishment of the Planning Commission and its subsequent reorganisations, it must be confessed that the administrative organisation for planning has grown haphazardly without any systematic examination of these problems. The result is that Planning Commission today is a mammoth organisation, almost 'a parallel government' in the words of Pandit Nehru.

It is to be noted that the Planning Commission and the National Development Council are not constitutional bodies. Now we have a constitutionally mandated District Planning Committee in every District, for further reading vide-the planning process.

As said earlier the Planning Commission is another important body which has an important place in Centre-State financial relations. The genesis of economic planning in India necessitated the introduction of plan assistance to states to enable them to undertake various developmental programmes envisaged in the five year plans. The responsibility for taking decisions and implementing them rests with the union and the state governments. The resolution emphasised the need for "adequate coordination" between the development schemes initiated by the union and the states and for comprehensive planning based on a careful appraisal of resources and essential conditions of progress.

The broad functions of the Planning Commission include :

- assessment of material, capital and human resources;
- formulation of a plan for their most effective and balanced utilisation;
- determination of priorities and allocation of resources for completing each stage of the plan;
- determination of machinery for securing successful implementation of the plan;
- appraisal of progress and recommending adjustments in policies and measures during the execution of the plan; and
- making of interim and ancillary recommendations on current development policies, measures, etc.

From the very beginning, the Prime Minister has been the Chairman of the Commission. The Deputy Chairman is an eminent person, usually a politician, holding the rank of a Cabinet Minister. There are two types of members of the Planning Commission in addition to the Minister for Planning. There are a few full-time members who are eminent public persons, economists, social scientists, technical experts or administrators. In addition, the Commission has as its members, a few Cabinet Ministers like the Finance Minister, Defence Minister, etc., who attend only very important meetings of the Commission. A large secretariat has been established to assist the Planning Commission in its work.

The Planning Commission has Advisers (State Plan) who perform a very important role *vis-a-vis* the States. On the one hand, they assist the Planning Commission in finalising the state and on the other, In monitoring the progress of various development programmes in the states. They also interact with the state governments and assist them in resolving these in implementation of the plan. They are thus expected to function as an active link between the Planning Commission and ihe state governments.

National Development Council

The setting up of the National Development Council in August 1952 on the suggestion of the Planning Commission itself, may be regarded as the most significant step for promoting understanding and consultation between the Union and the state governments on planning and common economic policies. It was assigned the three important functions of *(i)* reviewing the working of the National Plan from time to time; *(ii)* considering important questions of social and economic policy affecting national development, and *(iii)* to recommend measures for the achievement of the aims and targets of the national plan. Presently, besides the Prime Minister who is the Chairman, its members include the Chief ministers of all the States and Union Territories, Ministers of the Union Cabinet. The Council can meet "as often as may be necessary and at least twice in each year". Although the NDC is not a statutory body, its very composition gives it a unique character and its recommendations are treated with respect by the union and the state governments. It imparts a national character to the entire process of planning.

Devolution of Resources

Devolution of resources from the union to the states may be placed under three categories:

(i) transfers based on the recommendations of the Finance Commission;

(ii) transfers by way of assistance for execution of the plans recommended by the Planning Commission, including centrally sponsored schemes; and

(iii) others consisting of small savings, loans, assistance for natural calamities, etc., canalised through the Union Finance Ministry.

As already stated, the transfers effected on the recommendations of the Finance Commission (also called statutory transfers) are normally determined for a period of five years. Bulk of these transfers are unconditional and have a built-in buoyancy with respett to the growth of the concerned tax reoeipts. These transfers accounted for about 40 percent of the total transfers during the period 1951-85.

A substantial part of the transfers in the second category are by way of assistance for the execution of the state plans. These accounted for 31 percent of

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the total transfers from the union to the states during the period 1951-85. If to these transfers are added those on account of central and centrally sponsored plan-scheme, the totality of the plan transfers during the period 1951-83, works out to about 41 percent of the total transfers. The central assistance for the plans is based on the recommendations of the Planning Commission. It includes loans and grants.

The third category of transfers are given for various purposes by the union government. These are in the form of grants and loans for relief of natural calamities, improvement of roads, upgrading salaries of teachers, etc. During 1951-85, such transfers amounted to 19 percent of the transfers.

Central assistance is an important instrument for reducing regional inequalities and augmenting finances particularly of less developed states for meeting their developmental needs. Plan assistance has always been crucially important for state plans and presently about 50 to 60 percent of state plan outlays are met from central assistance. The amounts given as plan assistance in the form of grants (30 percent) and loans (70 percent) has always been determined on the basis of prescribed criteria. Nevertheless; in actual practice stronger states could get away with a larger slice than what was their due.

It is often alleged that in as much as only 40 percent of the total transfers from the Union have been effected on the recommendations of the Finance Commission, the transfers through the Planning Commission and the Union Ministries (for Centrally Sponsored Schemes) have been discretionary in character (implying subjectively arbitrary). Firstly, the Plan assistance is not mandatory on the union government. Secondly, allocation of Central assistance is subject to the approval of the National Development Council on which all Chief Ministers are represented. Thirdly, bulk of central assistance (grants And loans) is decided according to prescribed criteria, population being a major criterion, backwardness of the states, other special problems also being other important criteria. This is done under what is known as the Gadgil Formula or modified Gadgil Formula. Fourthly, in the case of centrally sponsored schemes, the pattern of financing, *viz.*, Central assistance *vis-a-vis* States own contribution for various schemes is determined and known well in advance.

As Sarkaria Commission has observed: "It is not humanly possible to derive foolproof formula which would make the totality of central transfers confirm fully to the ideal of automatic and free-from interference devolution. Some amount of flexibility and room for subjective judgment will have to be left to the concerned institutions to deal with the specific situations as they arise. What is really important is that the institutions involved should function in a fair and non-partisan manner and take decision with due discernment and expertise which are implicitly acceptable to the states".

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5.10 EVALUATION OF FIVE YEAR PLANS

The economy of India is based in part on planning through its five-year plans, developed, executed and monitored by the Planning Commission. With the Prime Minister as the ex officio Chairman, the commission has a nominated Deputy Chairman, who has rank of a Cabinet minister. The tenth plan completed its term in March 2007 and the eleventh plan is currently underway. Prior to the Fourth plan, the allocation of state resources was based on schematic patterns rather than a transparent and objective mechanism, which lead to the adoption of the Gadgil formula in 1969. Revised versions of the formula have been used since then to determine the allocation of central assistance for state plans.

First Plan (1951-1956)

The first Indian Prime Minister, Jawaharlal Nehru presented the first five-year plan to the Parliament of India on 8 December 1951. The first plan sought to get the country's economy out of the cycle of poverty. The plan addressed, mainly, the agrarian sector, including investments in dams and irrigation. The agricultural sector was hit hardest by the partition of India and needed urgent attention. The total planned budget of Rs. 206.8 billion (US$23.6 billion in the 1950 exchange rate) was allocated to seven broad areas: irrigation and energy (27.2 percent), agriculture and community development (17.4 percent), transport and communications (24 percent), industry (8.4 percent), social services (16.64 percent), land rehabilitation (4.1 percent), and for other sectors and services (2.5 percent).

The target growth rate was 2.1 percent annual gross domestic product (GDP) growth; the achieved growth rate was 3.6 percent. During the first five-year plan the net domestic product went up by 15 percent. The monsoon was good and there were relatively high crop yields, boosting exchange reserves and the per capita income, which increased by 8 percent. National income increased more than the per capita income due to rapid population growth. Many irrigation projects were initiated during this period, including the Bhakra Dam and Hirakud Dam. The World Health Organization, with the Indian government, addressed children's health and reduced infant mortality, indirectly contributing to population growth.

At the end of the plan period in 1956, five Indian Institutes of Technology (IITs) were started as major technical institutions. University Grant Commission was set up to take care of funding and take measures to strengthen the higher education in the country.

Contracts were signed to start five steel plants; however these plants did not come into existence until the middle of the second five-year plan.

SECOND PLAN (1956-1961)

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This plan functioned on the basis of a nude model. The Mahalanobis model was propounded by Prasanta Chandra Mahalanobis in the year 1953. The second five-year plan focused on industry, especially heavy industry. Unlike the First plan, which focused mainly on agriculture, domestic production of industrial products was encouraged in the Second plan, particularly in the development of the public sector. The plan followed the Mahalanobis model, an economic development model developed by the Indian statistician Prasanta Chandra Mahalanobis in 1953.

The plan attempted to determine the optimal allocation of investment between productive sectors in order to maximise long-run economic growth . It used the prevalent state of art techniques of operations research and optimization as well as the novel applications of statistical models developed at the Indian Statiatical Institute. The plan assumed a closed economy in which the main trading activity would be centered on importing capital goods.

Hydroelectric power projects and five steel mills at Bhilai, Durgapur, and Rourkela were established. Coal production was increased. More railway lines were added in the north east.

The Atomic Energy Commission was formed in 1958 with Homi J. Bhabha as the first chairman. The Tata Institute of Fundamental Research was established as a research institute. In 1957 a talent search and scholarship program was begun to find talented young students to train for work in nuclear power.

THIRD PLAN (1961-1966)

The third plan stressed on agriculture and improving production of rice, but the brief Sino-Indian War of 1962 exposed weaknesses in the economy and shifted the focus towards the Defence industry. In 1965-1966, India fought a war with Pakistan. The war led to inflation and the priority was shifted to price stabilisation. The construction of dams continued. Many cement and fertilizer plants were also built. Punjab began producing an abundance of wheat.

Many primary schools were started in rural areas. In an effort to bring democracy to the grassroot level, Panchayat elections were started and the states were given more development responsibilities.

State electricity boards and state secondary education boards were formed. States were made responsible for secondary and higher education. State road transportation corporations were formed and local road building became a state responsibility. The target growth rate of GDP (Gross Domestic Product) was 4.5 percent.The achieved growth rate was 4.3 percent.

Fourth Plan (1969-1974)

At this time Indira Gandhi was the Prime Minister. The Indira Gandhi government nationalised 14 major Indian banks and the Green Revolution in India advanced agriculture.. In addition, the situation in East Pakistan (now Bangladesh) was becoming dire as the Indo-Pakistani War of 1971 and Bangladesh Liberation War took place.

Funds earmarked for the industrial development had to be diverted for the war effort. India also performed the Smiling Buddha underground nuclear test in 1974, partially in response to the United States deployment of the Seventh Fleet in the Bay of Bengal. The fleet had been deployed to warn India against attacking West Pakistan and extending the war.

Fifth Plan (1974-1979)

Stress was laid on employment, poverty alleviation, and justice. The plan also focused on self-reliance in agricultural production and defence. In 1978 the newly elected Morarji Desai government rejected the plan. Electricity Supply Act was enacted in 1975, which enabled the Central Government to enter into power generation and transmission.

The Indian national highway system was introduced for the first time and many roads were widened to accommodate the increasing traffic. Tourism also expanded.

Sixth Plan (1980-1985)

The sixth plan also marked the beginning of economic liberalization. Price controls were eliminated and ration shops were closed. This led to an increase in food prices and an increase in the cost of living. This was the end of Nehruvian Plan and Rajiv Gandhi was prime minister during this period.

Family planning was also expanded in order to prevent overpopulation. In contrast to China's strict and binding one-child policy, Indian policy did not rely on the threat of force. More prosperous areas of India adopted family planning more rapidly than less prosperous areas, which continued to have a high birth rate.

Seventh Plan (1985-1990)

The Seventh Plan marked the comeback of the Congress Party to power. The plan laid stress on improving the productivity level of industries by upgradation of technology.

The main objectives of the 7th five year plans were to establish growth in the areas of increasing economic productivity, production of food grains, and generating employment opportunities.

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As an outcome of the sixth five year plan, there had been steady growth in agriculture, control on rate of Inflation, and favourable balance of payments which had provided a strong base for the seventh five Year plan to build on the need for further economic growth. The 7th Plan had strived towards socialism and energy production at large. The thrust areas of the 7th Five year plan have been enlisted below :

- Social Justice,
- Removal of oppression of the weak,
- Using modern technology,
- Agricultural development,
- Anti-poverty programs,
- Full supply of food, clothing, and shelter,
- Increasing productivity of small and large scale farmers,
- Making India an Independent Economy.

Based on a 15-year period of striving towards steady growth, the 7th Plan was focused on achieving the pre-requisites of self-sustaining growth by the year 2000. The Plan expected a growth in labour force of 39 million people and employment was expected to grow at the rate of 4 percent per year.

Some of the expected outcomes of the Seventh Five Year Plan India are given below :

- Balance of Payments (estimates): Export – Rs. 33,000 crore (US$7.3 billion), Imports - (-) Rs. 54,000 crore (US$11.9 billion), Trade Balance - (-) Rs. 21,000 crore (US$4.6 billion),
- Merchandise exports (estimates): Rs. 60,653 crore (US$13.4 billion),
- Merchandise imports (estimates): Rs. 95,437 crore (US$21.1 billion),
- Projections for Balance of Payments: Export - Rs. 60,700 crore (US$13.4 billion), Imports - (-)Rs. 95,400 crore (US$21.1 billion), Trade Balance- (-)Rs. 34,700 crore (US$7.7 billion).

Seventh Five Year Plan India strove to bring about a self-sustained economy in the country with valuable contributions from voluntary agencies and the general populace.

Period Between 1989-91

1989-91 was a period of political instability in India and hence no five year plan was implemented. Between 1990 and 1992, there were only Annual Plans. In 1991, India faced a crisis in Foreign Exchange (Forex) reserves, left with reserves of only about US$1 billion. Thus, under pressure, the country took the risk of reforming the socialist economy. P.V. Narasimha Rao)was the twelfth Prime Minister of the Republic of India and head of Congress Party, and led one of the most important administrations in India's modern history overseeing a major economic transformation and several incidents affecting national security. At that time Dr. Manmohan Singh (currently, Prime Minister of India) launched India's free market reforms that brought the nearly bankrupt nation back from the edge. It was the beginning of privatisation and liberalisation in India.

Eighth Plan (1992-1997)

Modernization of industries was a major highlight of the Eighth Plan. Under this plan, the gradual opening of the Indian economy was undertaken to correct the burgeoning deficit and foreign debt. Meanwhile India became a member of the World Trade Organization on 1 January 1995.This plan can be termed as Rao and Manmohan model of Economic development. The major objectives included, containing population growth, poverty reduction, employment generation, strengthening the infrastructure, Institutional building,tourism management, Human Resource development, Involvement of Panchayat raj, Nagarapalikas, N.G.O'S and Decentralisation and people's participation. Energy was given prority with 26.6% of the outlay. An average annual growth rate of 6.7% against the target 5.6% was achieved.

Ninth Plan (1997 - 2002)

Ninth Five Year Plan India runs through the period from 1997 to 2002 with the main aim of attaining objectives like speedy industrialization, human development, full-scale employment, poverty reduction, and self-reliance on domestic resources.

Background of Ninth Five Year Plan India: Ninth Five Year Plan was formulated amidst the backdrop of India's Golden jubilee of Independence.

The main objectives of the Ninth Five Year Plan India are :

- to prioritize agricultural sector and emphasize on the rural development,
- to generate adequate employment opportunities and promote poverty reduction,
- to stabilize the prices in order to accelerate the growth rate of the economy,
- to ensure food and nutritional security,
- to provide for the basic infrastructural facilities like education for all, safe drinking water, primary health care, transport, energy,
- to check the growing population increase,
- to encourage social issues like women empowerment, conservation of certain benefits for the Special Groups of the society,
- to create a liberal market for increase in private investments,

- During the Ninth Plan period, the growth rate was 5.35 per cent, a percentage point lower than the target GDP growth of 6.5 per cent.

Tenth Plan (2002-2007)

- Reduction of poverty ratio by 5 percentage points by 2007;
- Providing gainful and high-quality employment at least to the addition to the labour force;
- All children in India in school by 2003; all children to complete 5 years of schooling by 2007;
- Reduction in gender gaps in literacy and wage rates by at least 50% by 2007;
- Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2%;
- Increase in Literacy Rates to 75 per cent within the Tenth Plan period (2002 to 2007).

Eleventh Plan (2007-2012)

The eleventh plan has the following objectives :

1. *Income & Poverty*

- Accelerate GDP growth from 8% to 10% and then maintain at 10% in the 12th Plan in order to double per capita income by 2016-17,
- Increase agricultural GDP growth rate to 4% per year to ensure a broader spread of benefits,
- Create 70 million new work opportunities,
- Reduce educated unemployment to below 5%,
- Raise real wage rate of unskilled workers by 20 percent,
- Reduce the headcount ratio of consumption poverty by 10 percentage points.

2. *Education*

- Reduce dropout rates of children from elementary school from 52.2% in 2003-04 to 20% by 2011-12,
- Develop minimum standards of educational attainment in elementary school, and by regular testing monitor effectiveness of education to ensure quality,
- Increase literacy rate for persons of age 7 years or above to 85%,
- Lower gender gap in literacy to 10 percentage point,
- Increase the percentage of each cohort going to higher education from the present 10% to 15% by the end of the plan.

3. ***Health***
   - Reduce infant mortality rate to 28 anu maternal mortality ratio to 1 per 1000 live births,
   - Reduce Total Fertility Rate to 2.1,
   - Provide clean drinking water for all by 2009 and ensure that there are no slip-backs,
   - Reduce malnutrition among children of age group 0-3 to half its present level,
   - Reduce anaemia among women and girls by 50% by the end of the plan.
4. ***Women and Children***
   - Raise the sex ratio for age group 0-6 to 935 by 2011-12 and to 950 by 2016-17,
   - Ensure that at least 33 percent of the direct and indirect beneficiaries of all government schemes are women and girl children,
   - Ensure that all children enjoy a safe childhood, without any compulsion to work.
5. ***Infrastructure***
   - Ensure electricity connection to all villages and BPL households by 2009 and round-the-clock power,
   - Ensure all-weather road connection to all habitation with population 1000 and above (500 in hilly and tribal areas) by 2009, and ensure coverage of all significant habitation by 2015,
   - Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012,
   - Provide homestead sites to all by 2012 and step up the pace of house construction for rural poor to cover all the poor by 2016-17.
6. ***Environment***
   - Increase forest and tree cover by 5 percentage points,
   - Attain WHO standards of air quality in all major cities by 2011-12,
   - Treat all urban waste water by 2011-12 to clean river waters,
   - Increase energy efficiency by 20 percentage points by 2016-17.

5.11 SUMMARY

- Planning is preparation for action. Planning is a conscious effort to achieve desired ends. It is a rational method of application of resources for the fulfillment of specific objectives.
- The Planning Commission is the machinery for planning at the central level. The Planning Commission is essentially a non-political advisory body which makes recommendations to the government.

NOTES

- The NDC is headed by the Prime Minister and consists of the Central Ministers, Chief Ministers of the States and Lt. Governors, Administrators of Union Central Administration Territories and Members of the Planning Commission.
- The first Indian Prime Minister, Jawaharlal Nehru presented the first five-year plan to the Parliament of India on 8 December 1951. The first plan sought to get the country's economy out of the cycle of poverty. The plan addressed, mainly, the agrarian sector, including investments in dams and irrigation.

5.12 REVIEW QUESTIONS

1. What are the important functions of planning commission?
2. Discuss the role of planning machinery.
3. What are the roles of National Development Council (NDC)?
4. Discuss the evolution of planning in India.
5. State the principal objectives of eleventh five year plan.

5.13 FURTHER READINGS

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