B.A. (Programme) II Year Contemporary India

Foundation Course

CONTEMPORARY INDIA

Study Material: 1(1-7)

SCHOOL OF OPEN LEARNING
(Campus of Open Learning)
University of Delhi

Department of Economics
Editor: Sh. J. Khuntia
Graduate Course

Foundation Course: Contemporary India

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The study of basic features of India Economy at the time of independence is the study of economy of India under British rule. We can study this under three major heads:

(i) composition of national income
(ii) the agrarian scene and
(iii) the industrial scene.

1. Composition of National Income

The official estimates of national income by industry of origin of the first half of 20th century was given by the National Income Committee (NIC) appointed in 1949. The final report of the committee appeared in 1954. There were also estimates provided by S. Sivasubramonian (1965, 1997), Madison (1985) and Henton (1983) covering the period 1901 to 1946-47. For the purpose of estimation the economy was divided into three sectors i.e. primary, secondary and tertiary. Primary sector consisted of agriculture, animal husbandry and live stock, forestry and fishing. Secondary sector consists of Mining and manufacturing. Tertiary sector included railways and communications, government services commerce and transport, profession and liberal arts, domestic service and house property. Aggregate of incomes generated in these individual sub-sectors gives value of domestic product. Net income from abroad was then added to it to get national income. The shares of these industries are as follows:

1. It was found that in the year 1946-47, the primary sector was the most dominant sector in terms its share in national income. Almost 55 percent of the national income was contributed by this sector out of which agriculture contributed 43 percent and animal husbandry contributed 10 percent. Sivasubramonian’s estimate for total primary sector was Rs. 11,831 million at 1938-39 prices.

2. The share of secondary sector was around 15 percent of which manufacturing and small scale and cottage industries contributed 7 percent each. Income generated in total secondary sector activities was Rs. 4,097 million as per Sivasubramonian’s is estimate.

3. Around 30 percent of the national income originated in tertiary sector. The major contributions in tertiary sector came from other commerce and transport (13 percent) house property (5 percent) and government services (5 percent).

4. The contribution of net income from abroad was in negative term.

5. If we look at the average annual growth rates between 1981 to 1947, the primary sector grew at 0.39 percent as compared to 1.62 percent for secondary sector and 1.58 percent for tertiary sector. (See Table)
### Table

**Comparison of National Income**

<table>
<thead>
<tr>
<th>Sector /Industry</th>
<th>Estimate (Rs.) in million</th>
<th>Percentage share</th>
<th>Growth rate (1901 to 1947)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>8,817</td>
<td>43.2</td>
<td>3.30</td>
</tr>
<tr>
<td>Animal husbandry</td>
<td>2,736</td>
<td>10.2</td>
<td>0.75</td>
</tr>
<tr>
<td>Forestry</td>
<td>151</td>
<td>0.7</td>
<td>2.06</td>
</tr>
<tr>
<td>Fishing</td>
<td>127</td>
<td>0.5</td>
<td>0.87</td>
</tr>
<tr>
<td><strong>Total Primary</strong></td>
<td><strong>11831</strong></td>
<td><strong>54.6</strong></td>
<td><strong>0.39</strong></td>
</tr>
<tr>
<td><strong>Secondary</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>192</td>
<td>0.6</td>
<td>1.68</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2,173</td>
<td>7.0</td>
<td>4.41</td>
</tr>
<tr>
<td>Small scale and cottage industries</td>
<td>1,732</td>
<td>7.3</td>
<td>0.46</td>
</tr>
<tr>
<td><strong>Total secondary</strong></td>
<td><strong>40.97</strong></td>
<td><strong>14.9</strong></td>
<td><strong>1.62</strong></td>
</tr>
<tr>
<td><strong>Tertiary</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Railways and Communications</td>
<td>-</td>
<td>3.1</td>
<td>3.48</td>
</tr>
<tr>
<td>Government Service</td>
<td>2381</td>
<td>4.9</td>
<td>2.00</td>
</tr>
<tr>
<td>Other commerce and Transport</td>
<td>3144</td>
<td>13.3</td>
<td>1.51</td>
</tr>
<tr>
<td>Professions and liberal trips</td>
<td>700</td>
<td>2.9</td>
<td>1.02</td>
</tr>
<tr>
<td>Domestic service</td>
<td>280</td>
<td>1.2</td>
<td>1.06</td>
</tr>
<tr>
<td>House property</td>
<td>2474</td>
<td>8.1</td>
<td>1.16</td>
</tr>
<tr>
<td><strong>Total Tertiary</strong></td>
<td><strong>8979</strong></td>
<td><strong>30.5</strong></td>
<td><strong>1.58</strong></td>
</tr>
</tbody>
</table>

*Source: Estimates of National Income 1900-01 to 1940-47 by S. Sivasubramonian - The Indian Economic and Social History Review, 34.2 (1997) SAGE, New Delhi etc.*

2. **Agrarian Scene**
   The British India agrarian scene can be studied under following three heads
   1. **Progressive ruralization**
   2. **The land system**
   3. **Commercialization of agriculture**
1. **Progressive ruralization**

With the advent of British rule the curtains were finally down on the emperors, nawabs, rajas and princes who ruled in different parts of India. The great Mughal Empire disappeared. It caused maximum damage to the existing Indian handicrafts industries that time as it was totally patronized by these people. The vast number of craftsmen, artisans became unemployed and shifted to agriculture in rural areas thus igniting the process of back-to-land movement. The population in rural areas started increasing. From 55 percent in the middle of nineteenth century, the workforce in agriculture increased to 72 percent in 1931. This phenomena is called progressive ruralization. The consequence of heavy population pressure was subdivision and fragmentation of agricultural holding resulting in the following that crippled Indian agriculture in days to come –

(i) creation of many landless agricultural labourers, small and marginal farmers,

(ii) increase in land- rents and insecurity to tenurship.

2. **Commercialization of agriculture**

If progressive ruralization in one side then "commercialization of agriculture" is just the other side of the same Coin. Destruction of handicraft industries was necessary for creating market for British manufactured goods particularly the textiles. But to run the mills in Britain the Britishers needed raw materials such as cotton, jute, indigo etc. So the British rulers in India encouraged production such commercial crops by giving cash benefit to poor farmers. Railway lines were laid to transport these raw materials to port areas and from there to Britain by ship. The raw materials were used in factories of England and the finished products were shipped back to India to be sold at higher prices.

The Indians could not understand the simple British trade practice. They became dependent on the British administration in two ways. First, for cash in exchange of the cash crops. Second, for finished goods which came from Britain. Needless to say the money these farmers earned by selling raw materials went away by purchasing the finished goods from the Britishers.

There was another serious consequence. Encouragement to production of cash crops caused decrease in production of food grains. This became one of many causes of famines in India during British rule.

3. **The Land System (1793- 1850)**

The British East India Company had already realised that the principal source of revenue in India was land to finance the wars and run company administration. So in 1793 they introduced land settlement system. There, were two types of settlement". Permanent settlement" and "temporary settlement", permanent settlement was introduced in Bengal province and neighborhood areas. Under this settlement the land revenue was fixed permanently. The status of the revenue collectors were enhanced and they were called the "Zamindars". Under Zamindari system a zamindar was required to deposit land revenue to the state. So the British administration depended on these zamindars for collection of land revenue and gave them enough powers to do so. The increased proximity of zamindars to the British administration and the powers they got made them defacto rulers of the concerned area. In the years to come till independence Zamindars became symbol of tyranny, oppressors of poor farmers for land revenue, land grabbers, and absentee landlords. Latter on in some other states under the same zamidnari system
the British introduced "temporary settlement" under which land revenue could be reassessed after a period ranging between 25 to 40 years.

An alternative system known as "Mahalwari tenure" was introduced first in Agra and latter in Punjab i.e. northern parts of India. Under this system the village lands were jointly held by the village communities. A certain sum was assessed as land revenue for the whole village. Then the village "lumberdar" was given responsibility of collecting those revenues and deposit them with the British government in return of 5 percent commission.

Still another system of tenure was there in Bombay, Madras, Berar and Central India known as "Ryotwari tenure". Under this system land may be held in single independent holdings and these individual holders were directly responsible for payment of land revenue to the state. The individual holder known as Ryot was at liberty to sub let the land and earn rent and enjoy a permanent right of tenancy as long as he paid the land revenue to the state.

All the three systems i.e. Zamidnari, Mahalwari and ryotwari were of single nature i.e. means of collection of had revenue. All the three systems gave rise to intermediaries who in the name of collecting revenue became big private landlords virtually ruling over vast majority of small and marginal farmers and agricultural labourers who were created out of the system itself.

3. **Industrial Structure**

During the British period mainly the private sector both indigenous and foreign carried forward the process of industrialization

In the second half of 19th century some significant development towards establishment of industries took place. Between 1850-55 the first cotton mill, first jute mill and first coal mine were established. The first railway line was also laid during this time. By the end of 19th century there were 194 cotton mills and 36 jute mills operating. The coal production was about 6 million tones per year and the total length of railway line was 8000 miles.

In the beginning of 20th century particularly with starting of Swadeshi movement in 1905, indigenous industries grew at a faster rate. Indigenous business groups such as the Parsis, Gujaratis, Marwaris, Jains and Chettiars started giving up their traditional occupation to establish industrial ventures. The significant development in industrialization in the early 20th century from Indian point of view was the establishment of iron-and steel industry by Jamshedji Tata. The expansion of railways continued with a greater speed at roughly around 800 miles year.

The first and second world war during the first half of 20th century created heavy demand for manufactured goods. This gave opportunity to Indian mills to increase their production by working to full capacity. Production of iron and steel, jute, cotton and cotton textiles, leather goods increased. Between 1939 to 1945 there was 20 percent increase in industrial production. This however decreased to 5 percent in the postwar period between 1945 to 1950.

**Tariff Protection**

One significant development took place in 1923 in the direction of growth of domestic industrialization process. The Government of India accepted the recommendation of First Fiscal Commission and gave protection to selected Indian industries against foreign competition such as iron and steel cotton textiles, jute, paper and pulp industry and matches etc.
Problems of Industrialization

1. Industrialization in India during the British period was mostly directed to exploit local resources for development of industries in Great Britain and promote British capitalism in India. The process started with Merchant Capital in 1757 with the establishment of East India Company in Calcutta which latter captured power to establish British rule in India. British administration never encouraged manufacturing in India since it would have come in direct competition with manufacturing in Britain and damaged the process of industrial revolution there. Rather the British government encouraged production of raw cotton, raw jute, sugar cane, ground nuts and other raw materials along with commercialization of agriculture in order to feed the industries away in their home country which would then produce and sell the finished goods in India. So industrialization in India was catering to the market for British goods.

   Even the British trade and fiscal policies were aimed to further their interest. The tariff protection were given to those domestic industries which did not compete with similar industries in Britain.

2. While Britishers used whatever means they could to further their interest, lack of indigenous entrepreneurship did contribute a lot to slow growth of Indian Industries. It was said that most of the Indian industrialists were short-sighted. They were interested in quick short term profits on their investments. So many big Indian businessman were traders or money lenders rather than worthy industrialist. Shortage of capital with Indian business community to undertake big ventures was also an important factor for lack of industrial growth.

3. Another important feature was that British investment was mainly in consumer goods industries and those concerned with the processing of primary produce meant for export to Britain or elsewhere from where British government can earn foreign exchange. The British very carefully avoided setting up of basic and heavy industries which would have taken India to greater heights. The Britishers also had the ownership and control of management of most industries.

Fall in British Share

After second world war the British administration started crumbling because of financial exhaustion due to fighting wars after wars. Britain could not pay back the exports from India arising out of increasing demands during war so that the sterling dues in India’s favour increased. Combined with it was the protection to India Industries which saw Indian businessman growing rich enough to buy the foreign ventures established in India. So as India marched towards independence the share of British in Indian industries declined continuously from 43 percent in 1914 to 10 percent in 1935 and 3.6 percent in 1948.
The principal objectives of Indian planning, includes increase in national income, in employment, condition in income disparities and poverty and achieving self-reliance. In the last lesson we also discussed the broad choice of development strategy between balanced and unbalanced growth. In this section we shall analyse what has been the strategy of the Indian planners to achieve the desired objectives. What role was assigned to the Industry in particular the Heavy Industry. What were the policy interventions and how they impacted on one another and different sectors of the economy with a view to achieve the desired objectives of developments. What went wrong with this strategy of development and what is the NEW INDUSTRIAL STRATEGY.

Chakravarty in his analysis of the foundation of India’s development strategy points that India’s choice of post-independence strategy was influenced greatly by a perception of the important factors perpetuating structural backwardness. The basic constraint on development was seen as being an acute deficiency of material capital and the low capacity to save. Nurkse, in his famous doctrine of the “vicious circle of poverty”, said that poor societies remain poor because they cannot save enough in view of their low per capita income. Arthur Lewis’s famous dictum at that time was “The central issue for developing economies was to understand how a country which saves 5 per cent of its income is transformed into one which saves 20 percent of its income” A.K. Das Gupta a prominent Indian economist also defined India’s problem as one of “primary accumulation of capital. This is a central problem because the central fact of economic development is rapid capital accumulation.” Thus, one of the major tasks before Indian planning was to remove the constraint of the deficiency of capital by accelerating the savings rate and by transforming such savings into productive investment. The Indian planners, thus perceived capital accumulation to be the most crucial factor in achieving higher levels of economic growth and development. The technical foundation of the choice of strategy was also in keeping with this broad trend of thinking.

How to accelerate the rate of capital formation was thus the most crucial factor facing the planners. There was a remarkable unanimity among the pioneers of developing economies in the 1940’s and 1950’s on the proposition that industrialization was synonymous with development. The justification for giving high priority to industries were as follows

(1) It was widely believed that agriculture was subject to secular diminishing returns and that the scope for technological development was much wider in industry than in agriculture.

(2) Growth of primary producing countries is severely limited by the adverse terms of trade effect.

Terms of trade is expressed as P (price of export) /Pm (price of import).

If px/pm falls, i.e. export prices decline relative to import prices, terms of trade are said to deteriorate Historically, the prices of primary products exported by developing countries, have declined relative to prices of manufactured goods exported by developed countries. As a result the terms of trade have on the average tended to worsen over time for the developing countries.
(3) Low income and price elasticity of demand for exports of primary products i.e. the percentage increase in quantity demanded is less than the percentage increase in income or a fall in price. Consequently, when incomes rise in rich countries, their demand for food products and raw materials from under-developed countries goes up relatively slowly.

(4) On the basis of time series, Kuznets showed that the process of economic development was always accompanied by a shift of labour force from low productivity agriculture to high productivity manufacturing.

Therefore in order to develop high priority was assigned to the industrial sector by the Indian planners. The strategy followed by the Indian planners has been a mixture of balanced and unbalanced types of growth. It has been an endeavour of the planners to follow a balanced growth strategy where by all sectors would, develop alongside. However to achieve this balanced growth, the course of action followed has been one of unbalanced type. To achieve sustainable long term growth, the strategy chosen has been through rapid industrialization. The first plan did not clearly specify any long term strategy of planning for economic development, it aimed at reconstructing the economy and creating necessary economic infrastructure. The break came with the Second five Year Plan which saw the articulation of the Nehru Mahalanobis strategy of development. It emphasized rapid growth and diversification of economic activity through industrialization as essential for achieving and maintaining full employment at a rising level of productivity. It defined a coherent overall strategy whose central elements included stepping up the rate of investment and a conscious policy of developing an indigenous heavy industry base (comprising metallurgical, chemicals and machine-building industries). The ‘core of development’ was rapid industrialization in general and production of ‘machines to make machines’ in particular. It has by and large formed the basis for India’s planning for industrialization. Though, the socio-economic development process has been viewed to be comprehensive and balanced in nature, on the whole, the Nehru-Mahalanobis strategy leaned heavily on heavy industrialization in general and accelerated development of heavy and basic goods industries in particular.

Disenchantment with the policies and the development strategy began to show itself in the late 60’s and early 70’s. The weaknesses gaps, limitations and the inappropriateness of the strategy started surfacing prominently. Since the mid-sixties attempts were made to review the strategy and incorporate changes in policy. In the document “Towards an Approach to the Fifth Plan”, it was asserted “The elimination of abject poverty will not be attained as a corollary to a certain acceleration in the rate of growth of the economy alone. The Paper suggested a strategy to launch a direct attack on the problem of unemployment, under employment and massive low-end poverty.

The Janata Sixth Plan (1978-83) accepted the recommendations and emphasized the following:

(a) enlargement of the employment potential in agriculture and allied activities;
(b) encouragement to household and small industries producing consumer goods for mass consumption;
(c) fostering area planning for integrated rural development
(d) raising incomes of the lowest income classes through a revised minimum needs programme.

However, the Congress (I) Sixth Plan (1980-85) rejected this and continued to follow the conventional strategy of rapid economic growth via heavy industries. However, the hallmarks of Indian planning were still retained. In particular self-sufficiency was still actively pursued through import-substitution, dominant public sector and strict regulation and control of private industries continued to be a common practice. It took a multi-dimensional crisis which was already visible above the horizon in early years, but became an unmistakable reality in 1991, to focus attention on the need for a turn-around in industrialization strategy.

We shall now analyze in detail the Strategy of development in Indian economy. Two distinct phases: (1) The post-independence strategy and (2) the period from 1991 onward (New Economic Policy) mark a watershed in the development strategy. There has been a distinct U-turn in our industrial development strategy since 1991. Therefore, first we will study the period of post independence till 1990, and then the new economic policy adopted since 1991. We shall discuss the particular aspects of industrialization strategy, the role played by the different sectors and the policy instruments used thereof to achieve the desired objectives, under the following heads:

(1) ROLE OF HEAVY INDUSTRY AND SMALL SCALE INDUSTRY
(2) ROLE OF PUBLIC SECTOR AND PRIVATE SECTOR
(3) ROLE OF FOREIGN TRADE
(4) ROLE OF FOREIGN CAPITAL

POST INDEPENDENCE INDUSTRIAL STRATEGY

(1) Role of Heavy Industry and Small Scale Industry

Role of Heavy Industry: At the time of independence, Indian economy was dependent excessively on agriculture. The industrial sector was heavily dominated by traditional industries such as textiles and sugar. Therefore, diversification of industries into newer areas was a natural desire. However, the Indian development strategy went further than that. The Second Plan Mahalanobis model maintained that if industrialization has to be rapid enough, the country must aim at developing basic and heavy or capital goods industries. In his two sector model, he divided the entire economy into investment goods industries (R) and consumer goods industries (C). We can consider machines to be of two types those that produce directly consumer goods and those which make only more machines. Mahalanobis model considered development of basic industries which make “machines to make more machines”. Heavy industry was expected to increase the country’s capacity for capital formation and the general rate of industrialization so that India could ultimately become independent of the import of foreign producer goods. Basic and heavy industries were defined to include industries such as iron and steel, non-ferrous metals, machines building, coal and heavy chemicals.

Since the overall growth rate over a period of time tended to vary with the overall growth rate of investments in the economy, the model suggested a strategy of allocating a higher proportion of total investments to capital goods industries than the consumer goods industry. The pro-heavy industry bias of the Mahalanobis model was similar to the main features of a model independently developed by Feldman for the Soviet Union in the 1920s. In the initial stage of
development, the larger the percentage of investment on consumer goods industries we have, the larger will be the income. But there is a critical range of time and as soon as this is passed, the larger is the investment in investment goods industries, the larger will be the income generated. Thus if one is interested in more distant future, relatively larger investment in capital goods industries would be desirable. Hence Nehru Mahalanobis strategy focused on long run, self-sustained growth requiring sacrifice from the current generation for laying the foundation of prosperity.

The bias towards the basic and heavy industry implied limited absorption of labour and did not enlarge the supply of consumer goods in the short-to medium run. In the long-run however, it would generate faster growth of income and employment. Further, the second plan model assumed an almost closed economy (i.e. minimum role of foreign trade) and the implications of employment and the supply of consumer goods became more serious. Thus to correct this, a parallel thrust was envisaged as a part of the strategy to develop consumer goods industries using labour intensive methods to generate adequate jobs for the currently unemployed and unemployed in the transitional period.

**Role of the Small scale Industry**

The small scale sector was to be “promoted” and “protected” because.

1. it was believed that the small scale sector would use labour intensive techniques in the production of consumer goods, thus creating employment opportunities for a fast expanding labour force.

2. it would add to the supply of consumer goods in the short run and offset the inflationary tendencies by meeting the demand.

3. it was an important instrument of industrial development. The small scale sector could exploit the possibilities of rural industrialization, capitalizing on traditional skills and providing employment in rural areas as agricultural productivity increased and labour was released from the agricultural sector it could thus lead to more equitable distribution of incomes.

In the early years of planning the policies for the development of small scale sector were promotional through the use of various concessions and licensing framework. They emphasized the need for promoting greater integration between large scale and small scale industries. The fourth five year plan stressed for the first time, the competitive rather than the complementary aspect of the development of small scale and large scale sectors. Hence there was a shift to protectionist policies toward the small scale sector, in the form of reservation. The number of items reserved for production in the small sector stood at around 800 in 1989.

(2) **Role of Public Sector and Private Sector**

**Role of Public Sector:** A second major feature of the Indian industrial strategy was to carve out a prominent role for the public sector in the planning for industrialization. The strategy of development did not lay emphasis only on industrialization, but it was also an import-substitution oriented strategy. Such a strategy entails on attempt to replace commodities that are being imported with domestic sources of production and supply. It is a policy of reduced dependence on imports and self-reliant growth. Thus there was a strong accent on the creation of domestic capacity in the direction of producing capital goods to produce more capital goods. Thus Central importance was assigned to the Public sector and was first articulated in the Industrial Policy Resolution of 1956 and subsequently incorporated in the Second Five Year
Plan. Thus, the 1956 Resolution stated: “In the first category there will be industries the future development of which will be the exclusive responsibility of the State. The second category will consist of industries, which will be progressively state owned and in which the state will therefore, generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the efforts of the state. The third category will include all the remaining industries, mostly consumer goods industries, and their future development will, in general, be left to the initiative and enterprise of the private sector”. The leadership role of the Public Sector was supported due to various reasons.

(1) Indivisibilities and economies of scale-Rosenstein Rodan argued that production process in modern industries was subject to indivisibilities, long gestation lags and economies of scale. This required large investments in social overhead capital areas such as transport, communication, power and urban infrastructure. Such investments could be forthcoming only if the state played an active role. The Private Sector could not be relied upon to invest in basic and capital goods industries because of the under-developed capital market, lumpy investments and high risk associated with such investments.

(2) Commanding heights of the economy for achieving economic growth and social justice was considered inevitable in India, because socio-economic conditions that prevailed in the country did not provide a suitable, desirable and efficient alternative. Given the extremely low level of per capita income, saving and investment; inadequate growth infrastructure and socio-economic overhead; the ever-growing magnitude of poverty and unemployment there was no alternative to public sector playing a big role in the transformation of the economy. Hence it was felt that the Public Sector should “Strategically control” the key sector which formed “commanding heights” of the economy. This formed the basis for the “reservation” of certain areas of industrial production in the public sector e.g. defense, mining, iron and steel, cool, transport, infrastructure etc.

(3) Mobilizer of savings as well of important investor end owner of capital-A reliance on the market mechanism was likely to result in excessive consumption by upper income groups and hence under-investment. The growth of public sector enterprises was thus expected to prevent the dissipation of investable surplus in luxury consumption. Expanding public ownership over means of production was expected to provide the state with control over profits and surpluses which could be used for further investment. It was expected that profits would be further reinvested in the public sector. Thus saving and investment would rise and growth rates would accelerate. Since the production pattern in the economy would also reflect social priorities, the objectives of both growth and equity would be achieved.

(4) Reduce Concentration of economic power- By the end of 1960s the concentration of economic power in a few business houses became a major issue which further strengthened the role of the state in the industrial sphere. India adopted ‘socialist principles’ as the basis of economic and social well-beings of her people. The Directive Principles of state policy have provided for the establishment of a ‘socialist state’ to ensure that “the benefit of economic development accrue more to the relatively less privileged classes of society” and that concentration of income wealth and economic power is progressively reduced. The goals of the socialist society could not be achieved without public sector participation and intervention in economic activities in a big way. The need for expanding and strengthening the public sector was therefore reiterated in the subsequent plans.
Role of the Private Sector

Within the guidelines of state intervention and under the leadership of the Public Sector, the Private sector was expected to make its contribution in a mixed economy framework as envisaged by the planners. In areas which were left for the private sector, a clear role was felt for the state intervention as articulated in the Second Five Year Plan, i.e. The government policy can influence regulate and control) the private decisions through fiscal measure, licensing and to the extent necessary, through direct physical allocations, so as to promote and facilitate the realization of the targets proposed. The Public Sector was thus expected to shape the entire pattern of investments in the economy.

The industrial licensing framework under the Industries Development and Regulation (IDR) Act of 1951 came into force from May 1952 and was designed to channel the investment in the industrial sector in “socially desired directions” Licensing was the instrument used to translate the priorities and targets set in the plans into concrete capacities in the economy. It controlled both entry into an industry and expansion of capacity Concentration of economic power was feared and obstacles were put in the way of expansion by dominant companies with the Monopolies and Restrictive Trade Practices Acts (MRTP) (1970). This act subjected investment and expansion of proposals of “large and/or dominant” industrial undertakings to controls and approvals over and above the approvals under the IDR Act.

(3) Role of Foreign Trade

A developing economy faces broadly the choice of a strategy of looking, outward or inward. Outward-looking development policies encourage free trade and movement of capital. By contrast proponent of inward-looking trade policies or the import-substitution strategy (the protectionists) encourage development of indigenous technologies appropriate to a country’s resource endowments According to them, greater self reliance can be accomplished only if “you restrict trade”.

During British rule, trade was indeed an instrument of economic exploitation and there was substantial drain of resources from India to Britain. Free trade was used as a mechanism to transfer raw material cheaply to Britain which in turn processed them into final goods for export back to the colonies. India was highly suspicious of trade as a positive instrument of development policy. The colonial experience and the post-war trade patterns strongly favoured an inward looking patterns of development for India.

A crucial premise of India’s development strategy in the post-independence period was that of export pessimism. Planners in our country chose to ignore the foreign trade option as an “engine of growth” primarily on account of elasticity pessimism. Exports of primary products and raw materials were faced with unfavorable prospects in the world market. It was also felt that non-traditional manufactures, which constituted a tiny proportion of the country’s export at that time had little prospect of securing sizable export market until industrialization was well under way. A conviction grew that a necessary corollary of domestic development was less outward-oriented strategy which would shift focus to the domestic market.

The natural consequence of such export pessimism was a conviction that, in the long u, industrialization could be consistent with a viable balance of payments position only if it as based on a programme which minimised imports. The Mahalanobis model also provided support to the rationale for replacing imports with domestic production to further the objective industrialization. Thus import-substitution became the keystone of the development strategy in the late 1950s. The economic rationale put forward for import-substitution strategy was two fold:
(1) Import-substitution entails an attempt to replace commodities that are being imported with domestic sources of production and supply. The principal mechanism is first to erect protective tariffs (taxes on imports) or quotas and licensing (limits on quantity of imports) which would protect domestic firms from competition with producers from other countries. With enough time and sufficient protection such infant industry was expected eventually grow up and be competitive (2) to conserve the scarce foreign exchange. In view of the assumption of pessimistic export possibilities for India, import substitution policies would lead to reduced dependence on imports and conserve the scarce foreign exchange earnings. The Import Trade Control of 1955, brought almost all imports under the purview of licensing.

Thus the ‘inward-looking’ strategy of industrialization relied on encouraging domestic production for the domestic market behind high tariffs and a high degree of effective protection to the domestic industry. But this acted as a ‘bias’ against exports. Data compiled by Industrial and Investment Corporation of India (ICICI), the World Bank, show that even after taking account of the export incentives, introduced from the Third Plan onwards [export incentives have raised the average profitability of export and narrowed i.e. difference between domestic and export profitability and have played on important role in promoting exports], export profitability remained well below domestic profitability. The data showed that firms in India were likely to be interested in exports only if there is a surplus available after domestic sales. This high profitability in domestic markets as compared to export market is mainly due to high level of protection. For the commodities which are indigenously available in the domestic market, the tariff rates are the highest, and for others, those commodities put under Open General License (OGL, is a license to import but with no quantitative restrictions) and freely importable, are the lowest. These commodities subjected to high tariffs are also usually subject to quantitative restrictions. This implies that production for the home market enjoyed the double benefit of tariff as well as quantitative protection. The high protection rates have ensured that domestic prices were generally higher then international prices and the consequent profitability of investment for sales in home market was also higher.

However, beginning in late 1970s there was some change in perception about foreign trade and an associated shift of emphasis in trade policies. For the first time, stress an import substitution was little diluted and stress on export promotion went beyond the need to offset the bias implicit in import-substitution policies. A more explicit discussion of these issues was reflected in the 6th and 7th five year plan documents. It was recognised that export promotion and import substitution are neither mutually exclusive not alternative strategies of development.

However, a fundamental transformation of the trade regime was effected only after the economic crisis of 1990 and which we shall discuss in the section New Economic Policy.

(4) Role of Foreign Capital

In India, until the mid-1940s, foreign capital dominated industrial and financial fields. British companies dominated coal mining, jute industry, shipping, banking, insurance, tax and coffee plantations. Moreover, through their management agencies, British corporations controlled many of the industrial owned companies. The large presence of Foreign companies before independence, however, did not contribute to the growth of income in the country. In fact, it may have been a cause of India’s underdevelopment as foreign investment was concentrated in production and export of raw materials and food stuffs. There was practically no transfer of capital to India and she remained a net exporter of capital to the U. K. There was no scope for transfer of technology as most of the investment was concentrated in low technology extractive industries.
Against this background, it is no wonder that after independence an important plank of India’s development policy was to discourage inflows of foreign capital. Existing foreign controlled enterprises were discriminated against, and compelled or persuaded to exit or relinquish control. New investments were mostly restricted to industries where it was felt that the acquisition of foreign technology was important or promise of exports were convincing and industries national priority. The Foreign Exchange Regulation Act of 1973 was a landmark. The FERA laid down certain guidelines for companies with majority equity interest held by foreign nations. The companies with foreign equity in excess of 40% were referred to as FERA companies.

By the beginning of the 1980s, the share of foreign direct investment in gross capital formation was amongst the lowest for India among all developing countries (0.2% as against average of 6% for developing countries as a group). The highly restrictive policies towards foreign equity investment continued, without any significant change, until mid-1991.

POST INDEPENDENCE INDUSTRIAL STRATEGY WHAT WENT WRONG? THE MAIN CONTOURS OF INDIA’S DISAPPOINTING PERFORMANCE

Certain elements of India’s policy framework stifled efficiency and growth until the 1970s and somewhat less so during the 1980s as limited reforms begin to be attempted. The objective of the substantial reforms which begun in mid-1991 (we shall study this under the next section-the New Economic Policy) is the removal of these constraints. The three set of policy decisions which we will study and which broadly set limit to what India could get out of its investment are:

(1) Strategy regarding the role of the external sector-inward looking trade and investment policies.

(2) Strategy for industrial development and role of the private sector-industrial policies, barrier to internal competition, bureaucratic control over production and investments.

(3) Strategy regarding the role of the public sector—a substantial Public sector going well beyond the conventional confines of the public utilities and infrastructure.

(1) Strategy for External Sector- Foreign Trade kind Investment Policy

The strategy, for the most part, has been an import substitution based growth. The narrow interpretation of self-reliance objective as reduced dependence on imports resulted in inward-looking policies. In planning for import substitution there was an absence of any reference to relative costs (domestic vs. foreign). The infant industry argument i.e. protecting the new domestic industry from foreign competition provides a rationale for accepting a degree of additional short run cost in return for the future benefits of establishing a dynamic industrial sector. The duration of protection as well as the rates at which protection as provided then becomes a part of the instrument of planning. In fact, however, protection was typically granted whichever industry was set up, for indigenous capacity, without regard to relative costs and quality. Reduction in import content rather than domestic resource cost of production became the guiding parameter in the drive towards self reliance. The planners did not understand the extent of indirect import-intensity generated by the import substitution process itself. According to one calculation, during the period of 35 years between 1956-91, India experienced balance of payments problems of varying intensity is as many as 29 years. Thus, the post-independence inward-looking strategy of development, which was supposed to make India economically strong
and self-reliant, turned out to be one, which after a few initial years, made India increasingly dependent on periodic international rescue operations.

The economic cost of achieving some self-sufficiency (i.e. developing production capabilities across the different industries) have been very high. The home market has been protected for fifty years, with limited international competition. This has proved to be a recipe for high-cost, low quality production and lack of innovation.

On export front, the inflexibilities introduced by the pervasive controls handicapped the ability to penetrate competitive foreign market and impaired India’s export performance. The protection of domestic industry led to the attraction of the home market. Only in the last few years, export promotion has been considered a feasible and worthwhile proposition. The restrictions on incoming direct foreign investment have also reduced the absorption of new technology from this source.

(2) Strategy for Industrial Development

(i) The Indian Licensing system came into effect in 1952, under the IDR Act of 1951 (Industries Development and Regulation Act). The Indian embrace of bureaucratic controls (iron fists of controls over the private sector) was encouraged by various factors including dispersal of industries, prevent establishment of excess capacity, prevent concentration of economic power and to channel investments in the industrial sector in socially desired direction, in accordance with plan priorities. It was to control both entry into an industry, its operation and the expansion of capacity.

However, the licensing system failed practically on all counts. According to an estimate, under the old licensing system, an entrepreneur had to seek nearly 50 approvals before implementing a project. This led to delays in project implementation as well as to cost and time overruns. The licensing system also gave rise to undue unearned rents which accrued to favored entrepreneurs and unscrupulous civil servants.

(ii) Control system was also considered necessary to protect the small scale sector. The large scale, in this view, had to be controlled, its growth restrained by licensing in order create space for the small sector. The attitude that, to protect the small scale sector, one had to restrain the large scale sector was symptomatic of a planning approach that presumed that the growth of the large scale sector would necessarily reduce that of the small scale sector. This was too mechanist an approach; quite possibly, the two sector would have grown together. The policy instruments for the protection of the small scale sector have had some side effects which are not conducive to the overall development of small scale sector. For e.g. the reservation and other policies protesting the small sector militated against the choice of optimum scale of protecting for a production u Reservation often forced the scale in the production to sub optimum levels for items such as electrical appliances and mechanical engineering products.

As regards the fiscal incentives, these tended to result in strong resistance of small units to grow into medium sized ones in the normal course of business and a tendency for fragmentation of big ones into small. The original premise that the small scale enterprises would use less capital and generate more employment per unit of capital has also proved to be questionable at best.

(iii) Prevention of concentration of economic power through Monopolies and Restrictive Trade Practices Act (MRTP) subjected investment and expansion of large industries over
and above the IDR Act. India has probably been unique in the way it has pursued an import-substitution policy of industrialization, and also placed severe restrictions on the large scale industrial sector from expanding in the domestic market for consumer goods. The failure of the large scale sector to exploit the potentially large domestic market, even while its competitiveness in exports was reduced, had a severe dampening effect on economic growth. Also the control system gives better access to the haves than the have-nots in practice. The MRTP Act might have instead managed to accentuate the already slow and arid cumbersome functioning of the system by subjecting the MRTP cases to stringent and long inquiries.

(iv) Heavy industries required lumpy investments with high capital ratios and long gestation lags. The cost cascaded into all industries using these inputs. To protect the high cost domestic industry against foreign imports, trade was restricted and protection through tariffs and quotas was provided. To stimulate investments inspite of high cost of domestically produced capital goods, capital was subsidized through cheap credit, resulting in distortion of factor prices. This resulted in the choice of more capital intensive techniques than would have been appropriate, given the abundance of labour in the country. The emphasis on industrial development raised the capital output ratio, not only for the heavy enterprises, but the average for the economy as a whole.

(3) Strategy for The Public Sector

In view of the strategic role assigned to the public sector for the development of heavy basic industries in the process of growth, its performance plays a crucial role. An important assumption in the choice of strategy was the primary role assigned to public sector for increasing savings in the economy. The initial choice of development strategy which gave a central le to the state in the control and direction of economic activity, was entirely understandable within the particular economic or political context in which the choice was made. The neglect of economic development during the colonial rule period was too deep and had persisted for a long, to permit any other outcome. However, the public sector enterprises failed to generate profits and hence contribute to governmental savings. The public sector, instead of generating resources for the growth of next of the economy, became a net drain on the resources of the society as a whole.

While physical output and financial investments were expanding, productivity and profitability of the public sector were declining for a variety of reasons. Idle capacity in large number of enterprises and shortage of capacity in others, led to a series of imbalances, spelled losses and created time over-runs and cost over runs which reinforced each other. The fiscal crisis of the Central Government is a reflection of the financial crisis of the public sector. An important reason for the state of “fiscal incapacity” is, without doubt, the failure of the public sector enterprises to generate adequate revenue or return on post investments. The inefficiency is not the only cause of public sector, losses. From the original concept of ‘core’, ‘strategic’, ‘basic’ and ‘capital goods’ industries, the public sector has come long way, acquiring on the way, sick and nonviable private units because of political compulsions.

The state of Indian public finances reached crisis proportional by end of the 1980s on the one hand, it failed to generate investible resources and on the other, there was an unprecedented increase in the 1980s of budgetary expenditure on defense, wages, salaries and subsidies. Budget deficit as a proportion of GDP rose from 6.4% to 9% during the 1980s. These ‘temples of modern India’ as Jawaharlal Nehru called them, failed miserably in strengthening India’s economic outlook.
Conclusion

The choice made in the early stages of development depended on the opportunities and knowledge available then. It cannot be argued that if an alternative strategy was formulated, the aggregate and long term results would have been favorable. Initial choice of India’s economic strategy is understandable within the particular economic and political context in which the choice was made. However, it is a fair criticism of India’s development strategy that the country’s economic policy was unresponsive to existing internal and external circumstances. India failed to adopt sufficiently rapidly to changing circumstances wherein the industrial economy became more complex, nor was it responsive enough as the international environment changed from the relatively stable period of the 1950s and early 1960s to an environment characterized by rapid change.

A sort of functionless capitalism seems to have flourished under the protection of a professedly socialist state. Barriers to internal competition through licensing restrictions, pricing policies, tariff and non-tariff barriers, all discourage technological change. We have developed protected islands of inefficiency, which have blocked higher rates of growth of Gross Domestic Product and exports. The policies of indiscriminate import substitution combined with a regulated domestic industrial policy-framework created an economic environment in which entrepreneurs, had strong incentives to pursue ‘rent seeking’ and little incentive to reduce costs and improve quality. The high cost industrial structure also reduced the competitiveness of Indian exports.
INTRODUCTION

The objective of India’s development strategy has been to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty. These objectives were to be met through the development of mixed economy where both public and private sectors co-exist. The post independence period was based on economic development strategy of five-year plans. In early planning period India initiated the industrialization strategy articulated by Professor Mahalanobis that placed emphasis on the development of heavy industries and envisaged a dominant role for the public sector in the economy. The wide variety of instruments like state allocation of investment, licensing and other regulatory controls on a closed economy basis were introduced to improve industrial development. Thus the initial development strategy was termed as inward looking import substitution strategy. The actual results of this strategy were however far below expectations. Instead of showing high growth, high public savings and a high degree of self-reliance, India was actually showing one of the lowest rates of growth in the developing world with a rising public deficit and a periodic balance of payment crises.

The fundamental regulation system that had dominated the Indian economy since the Nehru era continued till 1991. An unprecedented balance of payments crisis emerged in early 1991. India was faced with the prospect of defaulting on external commitments since the foreign currency reserves had fallen to a mere $1 billion by mid-1991 barely sufficient for two weeks of import. These factors led to the framing a new development strategy based on Liberalization, Privatization and Globalization (LPG).

Liberalization

In common parlance, liberalization is the loosening up of controls, which the government exercises on economic forces. It means the reduction of government regulation on economic activity and allowing greater use of market forces in the economic processes. These reforms sought to remove the barriers preventing entry of new firms and the limits to growth in the size of existing firms. The strategies for industrial liberalization are:

(i) Abolition of industrial licensing as an instrument of control over private investment;
(ii) Abolition of the restriction on investment by large industrial groups;
(iii) Drastic reduction in the list of industries reserved for the public sector;
(iv) Elimination of price control on several industrial items;
(v) Reduction in the protective policies for the small-scale sector;
(vi) Opening the economy to Foreign Direct Investments (FDI) and foreign trade.
Liberalization also involves Financial sector reforms that aimed at creating profit oriented financial services and the better functioning of the money and capital markets. This involves:

i) It involves the liberalization of interest rate controls and controls over bank credit allocation, introduction of prudential norms and improved supervisory standards, liberalization of entry for private banks and introduction of minority private share holding in public sector banks.

ii) The elimination of government control over the issue of capital, allowing foreign portfolio capital, establishment of an independent regulator for the securities market and opening the mutual funds sector for private mutual funds.

iii) Insurance sector is being opened up to new private sector insurers. The foreign capital investments up to 26 per cent total equity capital in the insurance companies has been allowed.

Globalization

Globalization is the process of integrating the various economies of the world without creating any hindrances in the flow of goods and services, technology, capital and even labor or human capital. It involves the development of the world into a single integrated economic unit. There is nothing like a home market and international market but there is only one market, i.e. the global market. This process is a move towards a borderless regime of free trade based on competition. The key elements of globalization are as follows:

i. Reduction of import duties: There has been a considerable reduction in import duties. By 1990 import duties were 300 percent or more for several items and above 200 percent for many items. Peak rates have been progressively reduced to 15 percent.

ii. Reduction of restrictions on Imports: By April 2001, all the quantitative restrictions on imports were removed. Only a few items have been retained for exports through State Trading enterprises.

iii. Encouragement of foreign investment: The government has taken a number of measures to encourage foreign investment. FDI is allowed in all sectors including the services sector except atomic energy and railway transport. FDI in small scale industries is allowed up to 24 percent equity. Use of brand names/trade marks is allowed. Further, FDI up to 100 percent is allowed under the automatic route in all activities/sectors except few sectors.

iv. Encouragement to foreign technology agreement: The automatic approvals for technology agreement are allowed to industries within specified parameters. Indian companies are free to negotiate the terms of technology transfer with their foreign counterparts according to their own commercial judgment. Companies can make remittances for technical services fees, know-how and royalty subject to the terms approved by RBI.

Privatization

Privatization has to be viewed in two ways: In a narrow sense, it implies the induction of private ownership in a public sector undertaking. In a broader sense, it implies the enlargement of the scope of the private sector in the growth of the economy. The basic purpose is to limit the areas of the public sector and to extend the areas of private sector operation including heavy industries and infrastructure. Privatization is, therefore, a process of involving the private sector in the ownership or operation of a state owned or public sector undertaking. It involves organizational measures that limit state control in PSUs through providing sufficient degree of autonomy to the operating companies for taking decisions under their hold, leasing the use of assets of a public enterprise to a private bidder for a specified period or restructuring involving
the changes in the financial structure or activities of business of PSUs. Further, operational measures have been initiated to transform the organization structure so as to provide the sufficient degree of autonomy to the operators of the enterprise or develop a system of incentives that raise its efficiency and productivity. The basic purpose of operational measures is to infuse the spirit of private enterprise. In India, it is in the form of: a) Memorandum of Understanding (MOU) between government and management of PSUs; b) Granting of operational freedom to the managers; c) Provision of incentives for workers and executives consistent with increase in efficiency and productivity; d) development of proper criteria for the investment planning and e) permission to public enterprise to raise resources from the capital market.

The privatization has brought a commendable change in the performance of PSUs in India. The reduced budgetary allocation accompanied by a greater managerial autonomy and a growing competition has instilled a greater amount of cost consciousness amongst PSUs. The changes in the market conditions and corporate governance had ensured greater accountability. The ratio of net profit to capital employed has been 3.5 percent on average during 80’s which fell to 3 percent during early period of reforms. This ratio has witnessed an increasing trend over the last decade. It stood at 12.26 percent in 2006-07. There is the sharp decline in number of loss making PSUs and their losses. The number of loss making units has declined from 92 in 1983-84 to 59 in 2006-07. The profits earned and dividend paid by PSUs is steadily improving.

Appraisal:

Indian economy has been undergoing significant changes in all the sectors in recent years. The impact of LPG on the Indian economy are wide and could be seen from several angles such as internal and external trade, production, consumption and distribution, overall and sector wise performance, social, economical, political and cultural impacts, and macro and micro level impacts. The annual growth in GDP per capita has accelerated from just 1¼ per cent in the three decades after Independence to 7½ per cent currently. The Potential output growth is currently estimated to be 8½ per cent annually and India is now the third largest economy in the world (after the United States and China and just ahead of Japan) in 2006 measured in purchasing power parity. Increased economic growth has helped reduce poverty, which has begun to fall in absolute terms. The average share of imports and exports in GDP had risen to 24 percent in 2007, up from 6 percent in 1985. Inflows of foreign direct investment have increased to 2 percent of GDP from less than 0.1 percent of GDP in 1990. The net national saving rate between 2001 and 2007, has now reached almost 23 percent of GDP. However, in order to further raise the sustainable and inclusive growth further reforms are required in terms of reducing restrictions in labor and product markets; improving infrastructure, human capital formation and general public services and reducing tax distortions.

NEW INDUSTRIAL STRATEGY

Disenchantment with the policies and the development strategy which prevailed with occasional and slight modifications between 1951 and 1991 had begun to show itself in the late 60s and early 7Os. It took a multi-dimensional crisis which was already visible above the horizon in earlier years, but became an unmistakable reality in late 1980s, to focus attention on the need for a turn-around. The crisis had two dimensions:

(1) Crisis of resources which dried-up governmental revenues and spelled huge deficits.

(2) Crisis of foreign-exchange which ended up India’s creditors refusing to give any more credit. Foreign exchange reserves dwindled to an all-time low, $1.1. billion at end of June 1991. India was about to default on debt repayment, its credit rating had collapsed, balance of payments deficits and budget deficits had peaked.
The Government had thus no choice, but to launch an alternative strategy, a U-turn. Indian economic policy has been put on a new trajectory since the middle of 1991. The new trajectory reverses the contents and drifts of a number of economic policies of the earlier period. The rationale of the U-turn in the new economic policies is that the old set of policies had landed the economy in a syndrome crisis. The four main pillars of the new strategy are:

1. Foreign-trade policy reforms
2. Foreign capital reforms
3. Public sector reforms
4. Industrial Policy Reforms

Now, we shall briefly analyse the major changes, but the details you can get in other relevant sections of your study material.

1) **Foreign-Trade Policy Reforms**

In India, as in many other developing countries international trade has long been dominated by regulations and controls. Steady progress has been made during the nineties in replacement of quantitative restrictions, licensing and discretionary controls over imports by deregulation and simplification of procedures and protection through tariffs and exchange rate. The Export Import (EXIM) policy of 1992-97 was a step in this direction. Another step was Exim policy 1997-2002, which was subsequently revised in April ‘98.

1. **IMPORTS** - Despite a little liberalization in the 1980s, imports were subject to mainly two types of restrictions:

   a) **Quantitative restrictions (quotas) through licensing.** Licenses were in general granted only on proof that there was no source of indigenous supply (indigenous clearance’) and they were granted only for own use (i.e. not to commodity traders for resale). All ‘bulk’ items (e.g. cereals, petroleum, metals, fertilizers) were ‘canalized’ i.e. they could be imported only by a government monopsony.

   Reform of the Trade policy since 90s aimed at moving away from a regime of quantitative restrictions to a price-based mechanism. In the post-reform period coverage of Open General License (OGL) has been enhanced. All goods may now be imported freely except those still reserved for import by the government canalizing agencies. The negative list consists of almost all consumer goods and their importation is allowed against a license. Some capital goods and producers goods are also in the negative list and require licenses, usually for protectionist reasons. Subsequently a number of items were moved from the negative/restricted list to OGL and can therefore be imported freely. In 1996 there were 6161 items which could be imported freely. This list was expanded to 6649 on April’97. Another 340 items have been shifted to OGL in the revised ‘98 policy.

   b) **Taxes on imports i.e., Tariffs.** Over most of the period since independence, it has been controls rather than tariffs which limited imports. However, there was a massive increase in tariffs rates in 1980 and devaluation of 1991 further eliminated excess demand for most products, by making them expensive.

   Now the tariffs on imports have been reduced substantially and tariff categories have been reclassified with an eye on streamlining and simplification. Import duties which
were highest in the world have been brought down progressively. The maximum custom
tariff was reduced from over 300 percent to 150 percent in July 1991, 110 percent in
1996, import weighted tariff had declined to 27% from it pre-reform level of 87% on
1991. Lowering of tariff rates on import would help to reduce the anti-export bias in trade
policies by reducing the profitability of domestic sales. Lowering of tariffs on imports
would help bridge the gap between domestic profitability and sales for export market.

2) **EXPORTS:** In case of exports, quantitative restrictions remain in force for some items
even after the derestrictions made since 1991. These restrictions relate mainly to
agricultural and livestock products, and ores and minerals. ‘Food Security’, i.e. to prevent
food prices rising with world prices is the reason for restrictions on exports. But the main
reason has been to keep indigenous raw material prices low and thus protect domestic
industry. Apart from certain exports restrictions, there are also a number of export
promotion schemes.

As discussed earlier, the combination of high tariffs and quantitative controls raised the
effective protection granted to the domestic industry for domestic production and this led
to a ‘bias’ against exports. Therefore the recent import liberalisation measures have
tended to reduce this bias against export.

3) **Exchange-rate management**- In March’93 India moved to a single market determined
exchange rate. Under this system, there is no officially fixed exchange rate of the rupee.
Instead, the rate is determined by the demand and supply conditions in the foreign
exchange market. While the Reserve Bank of India stands ready to intervene to maintain
orderly market conditions and to curb excessive speculation.

The rupee was made convertible on the current account of balance of payments in
August’94. Current account transaction refer to transaction in goods and services. Capital
account convertibility implies, the right to transact in financial assets with foreign
countries, without restrictions. Although the rupee is not fully convertible on the capital
account, convertibility exists in rupee of certain constituent elements of the capital
account.

II) **Foreign Capital Reforms**

Foreign capital inflows (i) direct and (2) portfolio, are in the nature of non-debt-creating
flows and therefore, they are a desirable form of capital flows to the country. They bend both
savings and balance and payments constraint. The attitude towards foreign investment began to
change in 1985, as part of Rajiv Gandhi drive for advance technology. But major changes
awaited the reforms of 1991-92. The restriction on inflows of foreign direct and portfolio
investment were significantly eased. Earlier, case-by case scrutiny. Now, more transparent rule-
based approach under which Foreign investment can come into designated areas if ii line with
pre-establishment guidelines.

Earlier the companies with foreign equity in excess of 40% were referred to as FERA
companies, now the limit has been raised to 51% for a wide range of industries deemed to be of
national importance and where high technology was thought to be needed. Thus in Non FERA
companies with foreign investment up to 51%, approval of foreign investment was automatic. In
1996-97 government liberalized further the polices for foreign direct investment and allowed
automatic approval up to 74% by RBI in 9 categories of industries. Foreign Investment
Promotion Council was set up for fast approvals of investment proposals. In January, 1997 for
the first time detailed guidelines for foreign direct investment were announced for expeditious approval in areas not covered under automatic approval and priority areas for allowing 100 percent foreign equity. Equity investment up to 100% by non-resident Indians/Overseas Corporate Bodies has been permitted in priority industries hitherto eligible for 74% and 51% equity investment respectively. Thus the list of industries for foreign direct equity investment under the automatic approval route by Reserve Bank of India has been expanded.

In 1993-94, India experienced a surge of private capital flows from abroad. From a level of only $150 million in 1991-92 and $433 million in 1992-93 private capital flows (direct and portfolio flows) increased to $4.9 billion in 1994-95. The bulk of private flows were in the form of portfolio investment ($3.6 billion in 1994-95, out of total of $4.9 billion) and $2.7 billion in direct investment out of total of $5.6 billion 1996-97) About half of the portfolio investment was by foreign institutional investors in India stock markets, and the other half was in the form of equities and debentures issued by Indian companies abroad. (Over the last few years a dramatic change has occurred in the composition of these flows. Earlier, most of the capital flows were in the form of direct foreign investment or loans from international bank. In recent years however, the main sources of external financing are international bond and equity issues.)

(III) Public Sector Reforms

The inefficiency of the Public Sector has been documented and emphasized by many. For the petroleum Sector, the gross profit (i.e. after depreciation, but before interest) to capital employed has been about 20% in 1990s but for non-petroleum public sector 15.5% The Public sector has always absorbed a lot of investment and given little back. In 1993-94 it absorbed about 42% of gross fixed capital formation, while producing 29 percent of GDP; whereas in 1986-87, it absorbed 50% of investment while producing 27 percent of GDP In 1992-93, Central Public Sector Enterprises (CPSES) accounted for about 53% of the entire Public Sector. A large number of Public Sector enterprises make losses. In 1992-93, out of a total of 237 CPSES, 104 made losses (after interest) amounting to Rs. 3951 crores. Quite a few of these loss-makers were technically ‘sick’ i.e. they have negative net worth. These loss-making enterprises are thus a drain on the central budget.

The positive development with regard to the reform of Public Sector in India are:

1. Reduction of areas reserved exclusively for Public Sector. The statement of Industrial policy 1991, reduced the list of industries reserved for Public Sector from 17 to 8. Since then 2 more areas were de-reserved and so now only 6 remains reserved. Even in these reserved areas like petroleum, government may invite the private sector to participate as it has been in the case of oil exploration and refining.

2. A major policy initiative of 1991 in relation to CPSE was the partial disinvestment of equity of selected enterprises in order to provide market discipline and to improve their performance. Between 199 1-95 about Rs.10,500 crores were realised from these sales. 32 CPSE were involved and the highest proportion of equity sold was 37%. The government announced its intention of not going beyond 49% i.e. not to privatize. It is an important step in commercialization of enterprises and in making then subject to open public scrutiny.

Further the government has also set up Disinvestment Commission for working out the terms and conditions, as well as modalities, pertaining to disinvestment. It would help in timely detection of incipient sickness, adoption of effective rehabilitation measures and shutting down of totally unviable loss making enterprises.
3. As an alternative to privatization, steps are being taken to make the institutional relationship between the government and commercial enterprises more contractual and less adhoc. 104 PSUs have signed a Memorandum of Understanding (MOU) during 1995-96. The department of public enterprises carries out an exercise every year for assessing the annual performance of the PSES, who have signed MOU. A formal and contractual relationship is more conducive to better performance than an informal and adhoc system of supervision and control.

4. The CPSE including banks are being encouraged to raise fresh equity directly from the public rather than the government.

(IV) Industrial Policy Reforms Since July 1991, Indian industry has undergone a sea change in terms of the basic parameters governing its structure and functioning. Some of the important changes are:

1. Licensing - During the 1980’s there was some progress in the process of deregulation. First, 32 groups of industries were delicensed without any investment limit. Second in 1988, all industries were exempted from licensing except for a specific negative list of 26 industries. This exemption from licensing was, however, subject to investment and location limitations.

   But important change came with the New Industrial policy of 1991. Industrial licensing was henceforth abolished for all industries except those specified (14 industries), irrespective of level of investment. The exemption from licensing was expected to be particularly helpful to the many dynamic small and medium enterprises who had been unnecessarily hampered by the licensing system. It would also eliminate the unearned rents, reduce capital costs and free resources. It will thus provide an environment conducive to the education of cost, upgradation of quality and shorter delivery schedules.

2. Monopolies and Restrictive Trade Practices and (MRTP). Restrictions on the expansion of Indian firms under MRTP Act have been relaxed overtime. The 1991 Industrial Policy stated that “The interference of the government through the MRTP Act in investment decisions of large companies has become deleterious in its effects on Indian industrial growth. The pre-entry scrutiny of investment decisions by MRTP companies will no longer be required. The New Industrial Policy has scrapped all the asset limits in respect of MRTP and dominant undertakings, which are now at par with other undertakings as far as licenses and approvals are concerned. Instead emphasis will be on controlling and regulating monopolistic and restrictive unfair trade practices rather than making it necessary for the monopoly houses to obtain prior approval of central government for expansion, establishment of new undertakings, merger amalgamation and takeover. The thrust of the policy will be more on controlling unfair or restrictive business practices.

Conclusion: In conclusion we can say that the New Industrial Strategy has tried to reorient the economy from a highly controlled and directed economy to what is referred to in the current, jargon as a market friendly economy. A reduction in direct controls and physical planning was expected to improve the efficiency of the economy, reduce bureaucratic control and increase the role of private initiative. It was to be made more open to external trade and flows through reduction in trade barriers and liberalization of foreign investment.

   Rather than lesser government, need for a better government. Market can bring about an equilibrium between ‘demand’ and ‘supply’ but to ensure a balance between ‘need’ and ‘supply’ we require planning. Planning and market mechanism should be so dovetailed that one’s complementary to the other Market mechanism must serve as an “efficiency promoting devise,”
while planning to be longer guiding forcer keeping the long term social goals’, in the perspective.

**ROLE OF THE STATE**

The debate on “role of the state “resurfaced with adoption of 1991 industrial policy known as the LPG model i.e. liberalization, privatization and globalization- model. It is well known that 1948 industrial policy resolution gave India the status of mixed economy with coexistence of both public and private sector. The 1956 industrial policy gave public sector the most-important role of establishing the basic and heavy industries in order to accelerate economic growth, provide employment, ensure provision of articles of mass consumption, be the engine of self reliance, increase the rate of capital formation etc. Accordingly all successive governments provided increasing funds for investment in public sector. Government established many manufacturing industries under public sector which include areas such as power, iron and steel, petroleum, fertilizer, chemicals and pharmaceuticals, engineering, construction, coal, nuclear energy, etc. In the service sector also there was large scale expansion of public sector particularly in the area of banking and insurance, railways and civil aviation and telecommunication. No doubt public sector provided employment to many, contributed to the national product and created infrastructure for the country. But at the same time it also suffered from various short comings which did offset its achievements. The short comings of public sector include- mounting losses, irrational pricing policy, over capitalization, poor manpower planning, political interference in decision making, labour problems, inefficient management, lack of work ethics and too much of bureaucratization etc. All these problems accumulated over the years and finally forced the government to rethink about the role and functions of public sector which was reflected in 1991 industrial policy. The policy called for reforms in public sector which include encouraging the participation of private sector in areas which were earlier reserved for public sector, liberalization of licensing policy was also recommended to smoothen the privatization process. Even disinvestment of many existing public sector units was suggested latter. Such moves of the government were seen as some kind of attempt to redefine its own role in the economy. The question was whether the government should it self play the role of a producer of goods in the form of public sector units or should this function be left to the domain of “market system”? "Votaries of” market mechanism” as a means of souring economic problems of production, distribution and consumption strongly argue that government should not interfere in business activities and it should not itself do business since it is basically a non-profit making body made for providing social welfare to its people.

**AREAS OF STATE INTERVENTION: ROLE STATE.**

Never the less, it is also recognized fact that market alone cannot solve all the economic problems. For market to function properly certain conditions must prevail. Some of the most important conditions are :-

i. Perfect knowledge and information about various aspects of the product such as cost, revenue etc.
ii. Perfect factor mobility in the market and economy.
iii. Free entry and exit.
iv. In a real world situation all these conditions are not always present. Market can fail to function properly under following situations
presence of monopoly elements (ii) public goods (iii) externality in production and consumption and (iv) assymmetric information.

So state must play vital role in-

(i) ensuring competition in the market
(ii) provision of public goods
(iii) curbing negative externalities.
(iv) ensuring flow of information on quality of product
(v) provision of infrastructure
(vi) tackling poverty
(vii) reforming public sector.

Let us take them one by one.

In the absence of these above mentioned conditions there is likelihood of market failure in allocating resources and need for state to intervene, or example if then elements of monophy or oligopoly existing in the market the seller will dictate the market by lowering output and increasing price of the product. The net losers are consumers and society at large. In order to protect the interest of consumers the Government must intervene by enacting laws to control monopoly power of sellers. Antitrust law in USA, Monopoly and Restrictive Trade Practices (MRTP) act (1969) now replaced by Competition Act in India are examples of state initiative to regulate and control monopoly and promote competition. The Competition Act (2002) provides establishment of Completion Commision of India (CCI) which has the following objectives:-

(a) to eliminate practices having adverse effect on competition in the market
(b) promote and sustain competition
(c) Protect the interest of consumers
(d) ensure freedom of trade carried on by other participants in the markets in India.

CCI enjoys judicial powers to institute inquiry on receiving complaints against companies indulging in monopoly practices.

(i) Provision of public goods :
Street light national education, health, defnc, law and order etc. are public goods meant for collective consumption. In case of private goods, only those who pay for them can enjoy their benefits. But public goods are no- excludable. All members of the society get the benefit of public good even if some members have not paid for its provision. Take the example of national defence. Once it is provided every citizen of the nation gets the protection from external aggression even if certain sections have not paid tax or feeds for it. Because of this private firms do not supply the public goods.
Similarly service like education and health cannot be left to be supplied by private sector only because the price they will change could be unaffordable for the poor or middle class. So state must provide public goods.

(ii) To curb negative externalities
"Externality" refers to a situation where production or consumption by one party affects the same of the other party in the society. It could be both negative and positive. Negative externalities are important since they inflict certain burden on the society. Take the example of a firm producing steel and dumping the waste in the nearby river. This creates water Pollution which will adversely affect production of a fishery firm who completely depend on supply of clean water.
Pollution of any kind such as air, water etc. results due to private activities. While health hazard is the major social cost of pollution, it also obstructs production activities of other members of the society. Only state can solve the problem of such externalities by enacting some kind of legislation. Introduction of CNG run vehicles and abolition of polluting diesel run automobiles in Delhi on the order of the Supreme Court is an example of state intervention in market to curb negative externality. Polluting units are also taxed by government to check the maximum amount of pollution.

(iii) Information on quality of product
State intervention is also needed if there is assymetric information i.e. lack of knowledge about the various aspects of the product such as quality on the part of the buyer. When sellers hide the necessary information about the product while charging a price for it, there may not be any way available to buyer to know the quality of the product so that the price charged can be justified. Here also state has important role to play by ensuring flow of information. The Indian Standard Institute (ISI), and Ag mark etc. are government agencies who certify and ensure quality of the product.

(V) Provision of social and economic infrastructure:
India being a developing country the role of the state in providing infrastructure becomes crucial to development. Also the private sector is not well equipped with adequate capital and technology. Economic infrastructure such as highways, railways, hydro electricity and irrigation, drinking water, airports, mass rapid transit system etc. have all been state initiative in India with public sector taking the lead. Similarly social infrastructure such as education, health are also provided by the state. India being a mixed economy the participation of private sector has also been encouraged under the overall guidance and leadership of government department and public sector.

(vii) Tackling poverty
Poverty is one of the biggest challenges India is facing. The problem is more serious in view of growing population. It is the duty of the state to ensure a decent level of living for every citizen of the country. Since weaker sections and backward classes of the society including women are affected by poverty, the market forces controlling production process cannot solve this problem as they are only guided by profit motive. Such situations has to be tackled by planning and schemes having social considerations. Various social welfare and employment generation programmes in India for eradication of poverty are discussed latter in the section under “unemployment”

(viii) Reforming public sector
It is also the duty of the state to control its own enterprises so that they perform better. Because of state support the public sector enterprises often indulge in wasteful expenditure to maintain the high offices without bothering the economic loses. They are subject to interferences by politicians and bureaucrats and suffer from red-tapism and lack of quick decision making. The 1991 industrial policy has started the process of reform in the public sector for the benefit of the nation.
(i) Poverty

Poverty is a complex social phenomena that normally refers to a "state of being poor, deprived" where poor means anybody who is unable to fulfill even the basic necessities of life such as minimum food requirements, shelter, clothing etc. Poor could include an individual or family or a section of the society. Poverty becomes a social phenomenon and threatens to stop the economic and social development process when large section of the population is deprived of the minimum level of living and continues to live at an bare subsistence level. Poverty is a serious problem in many countries of Africa, Latin America and Asia which also includes India. Even in a developed country like USA and many Western European countries poverty does exist but having different nature than that seen in underdeveloped countries.

Poverty line

Who is poor? The most common definition being – anybody incapable of earning the required income for meeting the basic necessities of life. This definition is referred to as income poverty. The minimum income per month required to meet the basic necessities is called poverty line in terms of income. The poverty line can also be expressed in terms of monthly consumption expenditure. In order to satisfy the basic wants such as food, cloths etc. a person has to spend money on them in the market. Hence anybody who is not able to spend that amount of money to buy the goods must be a poor. The need to define poverty line in terms of consumer expenditure arises due to the fact that mostly people do not reveal their actual income. Also in India majority of people are in unorganized sector such as agriculture where income data is difficult to get. The National Sample Survey Organization (NSSO) collects data on monthly consumer expenditure of house holds in regular interval which is widely used to estimate poverty in India.

Study of poverty with respect to a specified poverty line in terms of either income or consumer expenditure is called Absolute poverty. The number of poor or percentage of population below this poverty line is referred to as head count ratio (HCR).

Most of the earlier studies on poverty in India referring to the period of 1960s and 1970s defined poverty line directly in terms of income or consumer expenditure. For example the commonly used poverty lines were as follows:

1. Income of Rs. 20 per month per person or Rs. 240 per annum per person at price level prevailing in 1960-61. B.S. Minhas used this poverty line and found that number of poor people in Rural India was 181 million in 1956-57 and it increased to 210 million in 1969-70.

2. Monthly per capita consumer expenditure of Rs. 15 in rural areas and Rs. 20 in urban areas at price level of 1960-61. P.K. Bardhan, M.S. Ahuwalia etc. used this poverty line. Ahluwalia found that number of poor people have increased from 181 million in 1956-57 to 241 million in 1973-74 on the basis of consumer expenditure in rural India.
3. In recent years poverty line in terms of calorie requirements for a person per day has been used very widely by researchers and government. Any body who is not able to get 2400 k calorie in rural area and 2100 k calorie in urban area is termed as poor. Since a person need some money to buy the food items in certain amount to meet the above calorie requirements we can convert the poverty line in terms of calorie to monetary expenditure every year and then calculate the number of people not able to meet that expenditure level.

**Trends in Poverty Ratios (HCR)**

In order study the trends in poverty we can divide the time period of analysis into two phases.

a) The first phase ranging from beginning of planning period to the mid 1970s.

b) The second phase ranges from mid 1970s till 2005 i.e. till the latest data is available.

**The first phase:**

Most of the poverty studies i.e. to name a few P.D. Ojha, P.K. Bardhan, B.S. Minhas, M.S. Ahluwalia, Dandekar and Rath etc. find that population below poverty line increased during this period. Between 1956-57 to 1973-74 number of poor increased from 181 million to about 260 million accounting for more than 50 percent of India’s population. Poor agricultural performance during 1960s combined with faster population growth, rising food prices etc. are held as main reasons for it.

**The second phase**

Since the mid seventies the percentage of poor people have been on the decline till the availability of latest data upto 2004. There were more than 321 million poor people in 1973 which declined to 31 million in 2004 i.e. from around 55 percent to around 28 percent respectively. Certain important observations can be made as follows.

(i) Even though the percentage decline is significant the absolute number of poor is still a matter of concern. According to UNDP report, 2003 India accounts for one fourth of Worlds poor. Rise in population seems to be the main cause.

(ii) There is a marginal decline in number of poor people in rural areas from 261 m to 220 m during these twenty years. But number of poor persons have in fact increased in urban India i.e. from 6 m to 8 m. This is attributed to rural urban migration.

**States most affected by poverty** : As per 2004 estimates Orissa is the poorest state with more than 46 percent of its population below poverty line followed by Bihar with 41 percent. Chattisgarh and Jharkhand follow the order with more than 40 percent each. Uttrakhand with 39.63 percent, Madhya Pradesh with 38 percent, Dadra and Nagar Haveli with 33 percent, Uttar Pradesh with 32.8 percent and Maharashtra with 3.75 percent complete the first 10 poorest states of India in 2004.
Composition of the poor

(i) From occupational status point of view, in rural area agricultural labour and artisan households are the worst sufferers of poverty while in urban area the victims being the casual labour households. In 1999-2000 the share of agricultural labour households in poverty ratio was 47 percent while the artisan households constituted 28 percent. The share of casual labour households, was 32 percent of urban poor. It should be recognized that increasing dependence of households on casual labour market exposes the poor to market risks and tends to increase transient poverty.

(ii) Among the social groups, SCs, STs and backward classes constitute 81 percent of rural poor in 1999-2000. These groups also suffer from the lower school enrolment ratio, high infant child mortality rates and low nutritional status particularly among women. It should also be noted that SCs and STs have more share in casual labour population.

(iii) Looking at the Gender Dimensions of Poverty female persons accounted for about 49 percent in both rural and urban areas. Besides income poverty there are other dimensions of poverty such as food insecurity, malnutrition and lack of medical attention. Females also face social discrimination in terms of adverse sex ratio and economic discrimination in workplace and employment. While females are seen more as casual and agricultural labourers as compared to males their wage rate is less than the males by 30 percent.

(iv) Finally looking at child poverty the situation is equally alarming. About 33 percent (one third) of the children belong to poor households and there has been increase in percentage of children among the poor population over the years. To make situation were, it has come to our knowledge that India has the largest number of malnourished children which is a worst form of poverty, in the world. According to National Family Health Survey in 2005-6 the rate of child malnutrition in India stood at 46 percent which is very high even as compared to Sub-Saharan Africa.

(v) Finally let us look at human poverty, Poverty is multidimensional. Estimates of poverty line in terms of income or expenditure do not fully reflect deprivation in respect of education and health which are important indicators of quality of life. Attainment in education and health empowers the person and allows him/her to make choices and take up opportunities to stand up to adversaries in life. Accordingly the UNDP Human Development report of 1997 defines poverty from human development perspective. Where human development is defined as process of enlarging people choices, poverty from human development point of view is called human poverty and is defined as denial of choices and opportunities most basic to human development for living a long, healthy and creative life and to enjoy a decent standard of living, freedom, dignity, self respect and respect of others. So human poverty focuses on the situation and progress of the most deprived people in the community. Since some of the aspects such as freedom, dignity, self respect etc. cannot be measured quantitatively an quantitative measure of human poverty known as Human Poverty Index (HPI) is constructed by taking into account deprivation in the following –

a) Longivity represented by percentage of people not expected to survive to age 40.

b) Knowledge represented by percentage of people who are illiterates.
c) A decent standard of living represented by combination of percentage of people without access to safe water, percentage of people without access to health services and percentage of under weight children.

India has HPI of 31.3 and ranks 126 in the world in 2004. Norway, Japan and USA rank number 1,7 and 8 with HPI of 7,11.7 and 15.4 respectively.

**Indias Strategy to Remove poverty**

Broadly India's strategy to remove poverty in rural and urban areas has three strands:

a) Promotion of economic growth

b) Human development and

c) Targeted programmes to address the multi dimensional nature of poverty.

India's national income and per capita income have been growing moderately during the planning period. It has been supplemented by progressive taxation and public expenditure. But we are yet to attain desired success in terms of poverty reduction. In terms of human development although India has shown better record in improving its literacy rate, gross enrolment ratio, life expectancy and reducing infant mortality rate and maternal mortality rate but lags far behind even many moderately developed countries. India also fares poorly in terms of gender development indicating strong gender bias. Share of education and health in total expenditure or gross domestic product (GDP), fall below desired on targeted level. The problem lies in production oriented approach of planning without altering the mode of production. In fact the gain in production has mostly been appropriated by the owners of instruments of production. The assumption of automatic transmission of the benefits arising from economic growth to the poor households such as small and marginal farmers, agricultural labourers, factory workers etc. without transferring property or tenurial rights to the state or the peasantry is totally misplaced. So inequality of income persisted with growth so that poverty remained almost unchanged in absolute numbers.

Before we take up the targeted anti-poverty programmes let us analyse the problem of unemployment since the programmes aimed to remove poverty are essentially same as aiming at employment generation. It is also an established fact that poverty is or a result of prolonged unemployment.

**(ii) Unemployment**

A major objective of all the economies in the world is to provide gainful employment to its labour force. A person becomes a part of the labor force the moment he/she enters adulthood and is physically or mentally fit to do some productive work. A job is required for earning some income and lead a decent life. Hence depending on the size of the labour force, economy must create as many jobs every year in order to achieve full employment. In fact one of the major objectives of planning in India is to achieve full employment for its population. What in unemployed? Obviously, any body who is inside the labour force and willing to work but not getting it is called an unemployment person. Longer the time of not getting a job more serious is the problem of unemployment. Sometimes a person who does a job below his/her capacity and
earn less than the income she/he deserves, such a typical situation is called under – employment which is equally a major problem facing many under developed countries.

**Indian Situation**

As per 2004-06 data India’s population was 1093 million with a labour force estimated at 420 million approximately. Labour force consists of both employed and unemployed persons. Out of this about 385 million people were part of work force which consists of people with some kind of employment. This means that total number of unemployed population turned out to about 35 million i.e. a bit more than 8 percent of the labour force. So we can say that unemployment rate in India is around 8 percent. (This data is based on persons who did not find work on a day or some days during the survey and known as current daily status (CDS) unemployment).

**Where people search for Jobs?**

There are three sectors in the economy which provide gainful works to job seekers. They are primary, secondary and tertiary sectors. Primary sector includes – agriculture and allied activities such as forestry, live stock, fisheries etc. Secondary sector includes manufacturing and construction etc. Tertiary sectors includes different services like banking and insurance, trade and commerce, transport and communication, real estate, social services (education, health) etc.

The primary sector activities are mostly seen in rural areas where an secondary and tertiary sector activities are located in Urban areas. As per economic survey 2007-08, out of total 385 million workers around 53 percent i.e. about 204 million workers were engaged in primary sector activities in rural India in 2004-5. The corresponding figure for secondary sector was 18 percent i.e. about 69 million and for tertiary sector it was 29 percent i.e. about 112 million.

**Nature of Unemployment**

Situation in the primary sector in rural area is different from that in secondary and tertiary sector in urban area. So we can divide unemployment situation in India as – (i) rural unemployment and (ii) urban unemployment.

**Rural Unemployment** - Majority of India’s population depend on agriculture were agriculture itself is depended on the vagaries of nature. A good rainfall normally followed by grand harvest means better employment, whereas a drought or flood season brings worse unemployment. Such type of unemployment often referred to as *seasonal unemployment*. A bad reason is also a reason of *under employment to many* people because those who were earlier getting full time work was end up as part time workers below their actual potential level.

Another peculiar problem is there in agriculture. Because of heavy population pressure and pressure on land more than required number of people are engaged in agriculture. Combined with this is the disturbing situation of – lack of education and skill, presence of high inequality in asset distribution causing large numbers of agricultural labour and marginal farmers to exist in poor condition. All these cause productivity to fall. Too many workers beyond what required and low productivity make every extra worker less productive and sometimes cause output to fall rather than increase. This peculiar situation is called *disguised unemployment*. 
Urban Unemployment

An urban area is known for those economic activities which are nonagricultural in nature such as industry and services. These sector mostly requires educated and skilled workers. So unemployment in urban area is of following nature:

(i) unemployment among industrial workers

(ii) unemployment among educated middle class

(iii) technological unemployment.

Unemployment among industrial workers.

The pace of industrial development in the country has not been fast enough to absorb the growing labour force as well as the increasing migration of people from rural to urban areas. Moreover use of capital incentive technology which is labor saving has added to the unemployment problem further.

Unemployment among educated middle class

There has been phenomenal increase in educational sector in recent years particularly in terms of enrolment in schools and colleges in urban areas. More universities and colleges are getting established with public- private cooperation and as a result universities are turning out lakh of graduates every year who enter the labor market. However the pace of job creation is slower comparatively. Also due to lack of expansion of vocational education demand for recruitments is much below the supply of job seekers. The data available with various employment exchanges in India show that by September 2004, the total number of job seekers registered was about a little more than 4 crores of which more than 70 percent were educated. About 76 percent of total i.e. about 1 crore and more were women.

Technological Unemployment

Use of modern technology may be conducive for growth of income but it obstructs employment opportunities for the labor force. Office automation use of sophisticated machines in industry and service sector have forced people to retire early, blocked entry of new job seekers and replaced many existing people on job.

Anti Poverty and Unemployment Programmes

Generation of more employment opportunities continuously over time is the solution to remove poverty and unemployment in India. The government has a major and important role to play here. The Economic Survey 2006-07 of government of India lists the following major anti poverty and employment generation and basic services programmes (box 10.2, page 208-10).

(a) Pardhan Mantri Gram Sadak Yojana (PMGSY)

Launched on December 25, 2000 as a 100 per cent Centrally sponsored Scheme (CSS), the primary objective of PMGSY is to provide all-weather connectivity to all the eligible unconnected habitations in the rural areas. Up to December 2006, with cumulative expenditure of Rs. 18.281 crore about 107,569 works has been completed.
(b) **Indira Awaas Yojana (IAY)**

IAY is a CSS funded on cost-sharing basis between the centre and the states in the ratio of 75:25. In the case of UTs, the entire funds are provided by Centre. The target groups of housing under IAY are households below poverty line living in rural areas particularly those belonging to SC/ST and freed bonded labourers. Up to December 2006, with cumulative expenditure of Rs. 29,246.27 Crore, 1531 lakh houses have been constructed/upgraded.

(c) **Swarnjayanti Gram Swarojgar Yojana (SGSY)**

SGSY, a holistic self-employment generation programme, was launched from April 1,1999 by restructuring the earlier Integrated Rural Development Programme (IRDP) and allied programmes. The emphasis of SGSY is on a focused approach to poverty alleviation, capitalizing advantages of group lending and overcoming the problems associated with a multiplicity of programmes. SGSY is funded on the same sharing basis as IAY. Up to December 31, 2006, 24.38 lakh self-help groups (HSGs) have been formed and 73.25 lakh swarojgaris have been assisted with a total outlay of Rs. 16,443.66 crore.

(d) **Sampoorn Grameen Rozgar Yojana (SGRY)**

SGRY, launched on September 25,2001 to provide additional wage employment in the rural areas, has a cash and food grains component. The cash-component of SGRY is funded on the same sharing basis as IAY and SGSY, while food grains are provided free of cost to the states and Uts. In 2005-06, 82. 18 Crore person-days of employment were generated with the centre releasing Rs. 5497.43 Crore as cash component and about 37.30 lakh tones of food grains to the States/UTs. Besides, under the special component of the SGRY, with the states /UTs meeting the cash components, Centre released 15.64 lakh tones of food grains to the 11 calamity affected states. In 2006-07 up to October 31, 2006 the number of person-days of employment generated under SGRY was 18.41 crore while the Centre’s contributions in terms of cash and food grains component up to December 31,2006 were Rs. 2,762 crore and 16.67 lakh tones, respectively. Under the special component, about 4.44 lakh tones of food grains have been released to calamity-hit states in the current year up to December 2006.

(e) **DPAP, DDP and IWDP**

Drought Prone Areas programme (DPAP) was launched in 1973-74 to tackle to special problems faced by areas constantly affected by severe drought conditions. While Desert Development Programme (DDP) was launched in 1997-78 to mitigate the adverse effects of desertification, the Integrated Wasteland Development Programme (IWDP) has been under implantation since 1989-90 for the development of wastelands/degraded lands. The basis of implementation of all three programmes has been shifted from sectoral to watershed basis from April 1995. So far, in 2006-07 up to January 31, 2007, 3, 076 new projects covering 15.38 lakh ha, 2,270 new projects covering 11.35 lakh ha and 463 new projects covering 21.08 lakh ha have been sanctioned under DPAP, DDP and IWDP, respectively.

(f) **Swarna Jayanti Shahari Rozgar Yojana (SJSRY)**

In December 1997 , the Urban self-Employment programme (USEP) and the Urban Wage Employment programme (UWEP) which are the two special components of the SJSRY, substituted for various programmes operated earlier for urban poverty alleviation. The SJSRY is funded on the same sharing basis as IAY and SGSY. The number of urban poor assisted for setting up micro/group enterprises in 2005-06 was 0.98 lakh against a target of 0.8 lakh; while in the current year, against a target of 1.20 lakh 0.53 lakh was achieved by December 31, 2006. The number of urban poor imparted skill training in 2005-06 was 1.42 lakh against a target of 1 lakh.
In the current year, against a target of 1.50 lakh, 072 lakh was achieved by December 31, 2006. Under UWEP, the mandays of employment generated was 43.48 lakh in 2005-06 and 1.78 lakh in the current year till now. Coverage of beneficiaries under the community structure component was 337.4 lakh both in 2005-06 and the current year up to December 31, 2006.

(g) Valmiki Ambedkar Awas Yojana (VAMBAY)

VAMBAY, launched in December 2001 facilitates construction and upgradation of dwelling units of slum dwellers, and provides a healthy and enabling environment through community toilets under Nirmal Bharat Abhiyan, a component of the scheme. The Central Government provides a subsidy of 50 per cent, with the balance provided by the state Governments/Union Territories. Cumulatively, up to March 2006 Rs. 936.63 crore had been released as Central subsidy for the construction/upgradation of 4,58,630 dwelling units and 65,331 toilets seats. For 2006-07 central allocation of Rs. 75 Crore has been made for meeting the committed liabilities for on-going projects. VAMBAY has been subsumed in Integrated Housing and Slum Development Programme (IHSDP) launched along with Jawaharlal Nehru National Urban Renewal Mission (JNNURM) on December 3, 2005.

(h) Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

JNNURM, which is for a seven year period from 2005-06 has two main components – Basic Services to the Urban Poor (BSUP) programme and Integrated Housing and Slum Development Programme (IHSDP). BSUP was launched to assist cities and towns in taking up housing and infrastructural facilities for the urban poor in 63 selected cities in the country. IHSDP was launched along with BSUP in December 2005 for taking up housing and slum upgradation programmes in non-BSUP cities. The allocation for JNNURM in 2006-07 (BE) is Rs. 4,900 crore.

(i) National Rural Employment Guarantee Scheme (NREGS)

With the NREG Act being passed in September, 2005 the NREGS was implemented from February 2, 2006 in 200 identified districts of the country with the objective of providing 100 days of guaranteed unskilled wage employment to each rural household opting for it. The ongoing programmes of SGRY and National Food for Work Programme (NFFWP) have been subsumed under NREGS in these districts. NREGS will cover all districts of the country within five years. The NREGS, a demand-driven scheme, has its focus on works relating to water conservation, drought proofing (including afforestation/tree plantation), land development, flood-control/protection (including drainage in waterlogged areas) and rural connectivity in terms of all-weather roads. Of the Rs. 11,300 crore allocated for NREGS in 2006-07 (BE), Rs. 6,714.98 crore was released up to January 31, 2007. Till January 31, 3.47 crore job cards have been issued and of the 1.50 crore households who have demanded employment, 1.47 crore households have been provided employment. Under the scheme up to December 2006, of the 53.65 crore person-days of employment generated, 21.13 crore were for women, and of about 5.81 lakh works taken up, 2.34 lakh were completed.

(iii) Food Security

Food security refers to continuous availability of sufficient food to all members of the society for an active and healthy life. This involves three following important aspects:

(i) Adequate physical availability of food to the entire population of the country.
(ii) Adequate purchasing power to people so that they can buy the required food from market

(iii) Adequate nutritional contents in food to lead active and healthy life.

Combining the above three it means that a nation must ensure supply of enough food through domestic production and imports if required every year to match its population growth over the long run.

**Food production in India**

Let us took at India's experience in the area food production so far. Achieving self sufficiency in food grains production in one of the major objectives of Indian planning. This was natural because of the history of famines during British rule and shortage of food and combined with soaring food prices and problems of refugees coming to settle in India at the time of independence. Hence with effect from the 1st plan period government provided maximum support to agricultural sector. High quality package of inputs consisting of high yielding variety (HYV) seeds chemical fertilizer, pesticides and irrigation also known as “new agricultural strategy” was tried in 1960-1 as a pilot project in seven districts called Intensive Agricultural District Programme (IADP). Over long run this strategy has been spreaded to other parts of the county as well covering various crops. Adoption of new agricultural strategy resulted in phenomenal growth in cereals production initially and it was popularly called "Given Revolution". Look at the production of some important food grains since this new technology was adopted.

**Progress in Food Grain Production**

<table>
<thead>
<tr>
<th>Production</th>
<th>Year (Million Tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1960-01</td>
</tr>
<tr>
<td>Rice</td>
<td>35</td>
</tr>
<tr>
<td>Wheat</td>
<td>11</td>
</tr>
<tr>
<td>Coarse Cereals</td>
<td>23</td>
</tr>
<tr>
<td>Total pulses</td>
<td>13</td>
</tr>
<tr>
<td>Total Food Grains</td>
<td>82</td>
</tr>
</tbody>
</table>

As per the data in the table above the production of rice, wheat has been significantly increasing whereas production of coarse cereals and pulses have not shown much increase.

**Concern areas of food grain production**

As per economic survey 2007-08, between 1950-51 and 2006-07 the production of food grains increased at an average annual rate of 2.5 percent compared to the growth of population at 2.1 percent. As a result, India almost became self sufficient in food grain with hardly any imports between 1976-77 to 2005-06, except occasionally. For example as against 3.5 million tones in
1960-61 and 3.3 million tones in 1970-71 cereal imports was only 670 thousand tones in 2005-06. But there are major concern areas as regards to (i) production of pulses and oil-seeds (ii) per capita availability.

Increase in production of pulses over the years has been very insignificant as the table shows. From 14 million tones in 1990-91 it has increased to 14.1 million tones in 2007-08.

On the other hand, there has been decline in production of oil seeds in 2006-07 compared to previous year (not shown in table). Oil seed production has always remained a major concern and India has been increasingly importing edible oils to meet the domestic demand. India's imports of edible oil was 0.5 million tones in 1990-91 and it increased to 4.3 million tones in 2005-06.

During the presently running 1st decade of 21st century the total food grain production has fallen short of target. In fact on an average, the food grain production between 200-01 and 2006-07 was 93 percent of the target. The figures of pulses and oilseeds for the same period were 98 and 85 percent respectively of the target. Among non-food crops the most important consumable is sugar cane which has, of course met its production target.

National Food Security Mission (NFSM)

Some of the factors directly responsible for poor food production include fall in area under production and lack of expansion of irrigation, lack of credit supply to farmers and inadequate availably of better inputs. Recently the department of Agriculture and Cooperation. Ministry of Agriculture has launched a centrally sponsored scheme called National Food Security Mission (NFSM) in pursuance of the resolution of the National Development Council (NDC) to increase production of cereals in order to met targeted levels - by end of eleventh five year plan. Various activities of NFSM relate to demonstration of improved production technology, distribution of hybrids and HYV seeds, training and mass media campaign including awards for best performing districts etc. Total allocation proposed for NFSM during eleventh plan period i.e. between 2007-08 and 2011-12 stands at Rs. 4882.5 crores.

Per capita Availability and Distribution of Food Grains

The second major issue of food security is the per capita availability of the produced of food grains through a well knit distribution network. At the outset we can say that per capita availability of food grains have increased since independence but very marginally. Taking into account cereals and pulses the per capita availability has increased from 345 gms per day in 1951 to about 422 gms in 2006. The marginal increase of only 77 gms in 55 years is due to the following reasons

1. India's population has almost matched food production in terms of growth rate
2. Stagnation in production of pulses leading to actual fall in per capita availability of pulses form 61 gms per day in 1951 to 31 gms per day in 2006.
3. Decline is per capita availability of coarse cereals from 116 gms. per day to 90 gms per day during the same period.

The issue of per capita food grain availability tells about food security at household level and not only just in terms of physical access as told above but also in terms of economic access.
to food articles that concerns affordability. This in turn raise the question of pri kes of food articles and the purchasing power in the hands of population know that India is a country with largest size of poor people in absolute term. A poor person does not have the adequate purchasing power. With nearly one third of population in poverty India face tremendous challenge in market distribution of food grains at affordable prices.

**Public Distribution System (PDS):**

To help the poor sections the government introduced PDS. Prices of food articles in PDS outlets were fixed below market price to help the poor to buy essential food and some daily nonfood consuming items. The PDS in India is the largest of its kind in the world with a net work of more than 4.62 lacs of fair price shops (FPS) distributing commodities worth Rs. 30,000 crores annually, thus benefiting about 160 million families. Needless to say the burden on the exchequer in providing commodities in subsidized manner has also been very huge. It amounted to 5.2 percent of the total government expenditure in 2003-04 as compared to 3 percent in 1980-81.

**Impact of PDS on poverty**

A study by Radhakrishna, Indrakant and Ravi in World Bank revealed that in 1986-87 out of 247 million poor only 12 million could move out of poverty due to PDS subsidies. This was very negligible amount. The main reason was that most of the absolutely poor states such as Bihar, U.P. do not have proper coverage of PDS. In addition, PDS has failed to distinguish between very poor and needy from others. Also there is existence of large scale corruption in procurement of food grains from Food Corporation of India (FCI) and their disbursement to the various outlets.

In order to overcome these problems Targeted PDS was introduced in 1997 in which special cards were issued to Below Poverty Line (BPL) families. It guaranteed 10 kg of food grains to each family per month at a price equal to 100 percent of economic cost. So main objective of Targeted PDS is to genuinely help the BPL families.

**Food Management : The larger issue**

In fact an effective PDS is one of the major issues in food security in India. The various aspects of food management includes the following:

(i) procurement of food grains from farmers at remunerative prices

(ii) effective PDS to benefit the poor

(iii) maintenance of good buffers in FCI for prices stability and future food security.

**Food Security and Nutrition**

Finally for an active and healthy life quality food which provides essential nutrients is required. India is the home of many under nourished children as well as mothers. There has been cases of starvation in tribal belts of Orissa, Maharashtra. In order to prevent chronic energy deficiency the government has taken following steps from time to time.
Applied Nutrition Project (ANP) was introduced in 1963 to promote production of protected food such as vegetable and fruits.

Special Nutrition Programme (SNP) was introduced in 1972 to provide a minimum of 500 kcal and 225 gms protein to expecting and nursing mothers and a specified amount to children as well.

Integrated Child Development Services (ICDS) scheme was launched in 1975 to provide food supplement to Children and pregnant and nursing woman.

Mid-Day meal programme was introduced for children between ages 2 to 14 years attending balwadis/ schools. The new name of the programme since 1975 is Nutritional Support to Primary Education (SSPE).

(iv) Regional Disparity

Regional Disparity (imbalance) refers to coexistence of relatively developed and backward regions in the economy. The region could be village, district, town, city or state. India is a very large country and is a federation of many states. In order to study regional disparities, 15 major states constituting 90 percent of India’s population, are grouped as either forward states or backward states on the basis of following criteria.

(i) Net State Domestic Product (NSDP).

(ii) Per Capita NSDP

(iii) Trends in investment

(iv) Infrastructure Development

(v) Human Development

Let us take them one by one. Before that it may be noted that the forward states include - Punjab, Maharashtra, Haryana, Gujarat, West Bengal, Karnataka, Kerala, Tamil Nadu and Andhra Pradesh. The backward states include - Madhya Pradesh, Assam, Uttar Pradesh, Rajasthan, Orissa and Bihar.

(i) Net State Domestic Product (NSDP)

The nine forward states, named above account for more than 50 percent of National Domestic Product between 1990-91 and 2002-3. To make matter worse the share of the six backward states, named above, fell from one third to about 20 percent of the national domestic product during the same period. The annual average growth rate of the forward states taken together during the period 1990-91 to 2002-03 was 5.6 percent as compared to 1.7 percent for the backward states. In 2002-3 Maharashtra had the highest NSDP in India with Rs. 153,429 crores, followed by West Bengal with Rs. 89,792 crores and Andhra Pradesh with Rs. 82,046 crores. Among the backward states Orissa and Bihar fall at the bottom with NSDP of Rs. 21,862 and Rs. 34,553 crores respectively. The NSDP of Assam was still lower at Rs. 16,788 crores in 2002-3.
(ii) Per Capita NSDP

Per capita NSDP is defined as NSDP divided by total population of the State. So it is a better indicator of standard of living. Maharashtra was at the top of the list in 2002-3 with per capita NSDP at Rs. 15,466 followed by Punjab at Rs. 15,264. Haryana and Gujarat had per capita NSDP at more than Rs. 14 thousands. The rest of the forward states such as WB, Karnataka, TN, AP and Kerala had more than Rs. 10 thousand as per capita NSDP in 2002-3. In terms of growth rate, WB showed slightly more than 5 percent average annual growth rate between 1990-91 and 2002-03 followed by Karnataka, Gujarat, Kerala and TN all with above 4 percent growth rate.

Coming to backward states, Bihar had the lowest percapita NSDP with Rs. 4,044 followed by Orissa with Rs. 5,836 in 2002-3. During the period 1990-91 to 2002-3 the per capita NSDP of Bihar had negative average annual growth rate at – 0.8 percent while Orissa experienced only 2.6 percent growth during the same period. It is interesting to note that states like UP and MP were having NSDP which was higher than even some forward states but when it came to percapita NSDP they lagged far behind because of high population and unemployment in these states. In 2002-3 UP's NSDP was Rs. 96,011 crores which was more than WB but its percapita NSDP was only Rs. 5,610 growing at a negligible rate of 0.4 percent between 1990-91 to 2002-3. Similarly both MP and Rajasthan had NSDP higher than Punjab in 2002-3 (the figures respectively are Rs. 43,770, Rs. 44.769 and Rs. 37,582 crores). But the percapita NSDP for MP & Rajasthan were slightly above Rs. 7 thousand which was less than half of that of Punjab. Similarly with respect to growth rate, between 1990-91 and 2002-3 the percapita NSDP of Punjab was growing at 2.2 percent annually as compared to less than one percent for both MP & Rajasthan.

(3) Trends in Investment

Investment is the key to development. Needless to say the forward states enjoy higher share in investment and financial support as compared to the backward states. The nine forward states accounted for more than 69 percent of total investment proposals between August 1991 to December 1998 in Indian while the share of six backward states was around 25 percent during the same period. Gujarat and Maharashtra had the list with investment share of more than 18 percent followed by AP and TN with more than 7 and 8 per cent respectively. Significant among the backward states being UP with 9.4 percent and MP with 7.4 percent share. But still poor states like Assam, Orissa and Bihar had shares 0.7m 2.2 and 1.2 percent respectively.

Financial support is also an essential factor for development. At all India level the financial institutions such as IDBI, IFCI, ICICI, UTI, LIC, GIC, SIDBI etc. disbursed around 67 percent of total financial assistance to the forward states. Maharashtra and Gujarat received 21 and 13.5 percent of the total assistance respectively by the end of March 1997. TN received 9 percent and AP's share was 7.2 percent at that time.

On the other hand, financial assistance to six backward states was 21.2 percent of total from all India financial institutions. While the share of UP was 7.1 percent the combined share of Assam, Orissa, and Bihar was 3.7 percent only.

At the state level there is State Financial Corporation (SFCs). By the end of March 1997, the SFCs disbursed 70 percent of financial assistance to all forward states combined while for the total backward states the share was only 26.6 percent.
Due to higher investment and financial assistance the forward states kept moving ahead of the backward states in terms of NSDP as well as per capita NSDP.

(4) Infrastructure Development

Infrastructural facilities are necessary for regional development. These include education, health, transport, energy, banking, communication, irrigation etc. In order to compare states on the basis of infrastructural development, we can use the infrastructure Development Index (IDI) prepared by (center for Monitoring Indian Economy (CMIE) for the year 1999. In developing the Index in a scale of 100, maximum weightage in percentages is given to transport facilities (26) followed by Energy consumption (24), irrigation (20) banking (12), communication, education and health (6 percent each). It was found that Punjab had highest IDI in 1999 with 191.4 followed by TN and Haryana with 144 and 141 respectively. Lowest value of IDI was for MP (75.3) followed by Assam (79) and Bihar (81).

(5) Human Development

While income levels in terms of NSDP and per capita NSDP are quantitative concepts they do not tell the qualitative aspects of population such as literacy, health etc. So human development indicators in the form of literacy rates, life expectancy and infant mortality rates can be used to compare states with respect to quality of life. In terms of literacy rate in 2001 except for Andhra Pradesh (61) all other forward states are above the national average of 65.3 with Kerala topping the list with 90.9. All the six backward states are below national average in this regard. Similarly all the forward states are above national average of 62.7 with respect to life expectancy and all the backward states are below the national average. While Kerala has life expectancy of 73.6 Assam has lowest life expectancy at 58. In the end, as expected the backward states fair badly in terms of infant mortality rates. While the national average of IMR in 58 backward states like MP and Orissa have highest IMRs at 76 and 75 respectively. Among the forward states only Haryana has high IMR at 60. But other states are below the national average with Kerala performing very well with IMR of 14.

Causes of Regional Disparity

1. Historical Reasons

During the British rule, most of the manufacturing and trading activities were undertaken in Maharashtra and West Bengal. The areas of Calcutta, Bombay and Madras attracted industrialists to establish their industries so that raw materials and products could be shipped respectively to and from great Britain.

2. Low Percapita plan Outlay

Most of the forward states receive higher per capita plan outlay thus furthering disparity among states. During the eighth plan per capita outlay for Punjab and Maharashtra was nearly Rs. 3000 as compared to Rs. 1742 for MP, Rs. 2026 for Assam Rs. 1372 for UP, even though the all India average was Rs. 1965. Since the first plan considerable investments have been concentrated in Delhi, Mumbai, Ahmedabad, Bangalore and Kolkatta etc. on the basis of “efficiency” – criteria.
3. Initial Impact of Green Revolution

The new agricultural strategy consisting of better input package in the form HYV (high yielding variety) seeds, chemical fertilizer etc, was implemented on an experimental basis on crops like wheat in the states of Punjab and Haryana. The phenomenal growth in agricultural production in these areas occurred as a result of this strategy which is also called “green revolution” which pushed these states to higher level of income as compared to other states.

4. Other factors

Lack of entrepreneurship development, lack of political will and etc. can also be listed as significantly contributing to a states backwardness.

Policy Measures to Remove Regional Disparities

There are three ways in which the Government of India has tried tackle the problem of regional imbalances in the country. They are as follows:

(i) transfer of resources from center to states on the basis of backwardness

(ii) special area development programme.

(iii) Promotion of investment in backward areas.

(i) Transfer of Resources: The finance commission has been constituted to give recommendations as regards to sharing of resources between center and states. The commission has adopted "backwardness of a state" as one of the criteria for transfer of funds from center to various states. They include central assistance for state plans, assistance for centrally sponsored schemes, long-term and short-term credit from financial institutions, grants-in-aid, etc. In the first three five year plans the share of backward states have been quite significant. It increased from 48 percent in 1st plan to 57 percent in the 3rd plan.

However, after that there has been continuous decline in the share of funds for backward states. From 50 percent in fifth plan the share has declined to 36 percent in 10th plan. Non utilization of funds by state governments, diversion of funds to other areas not earmarked earlier etc. are some of many reasons for decline in share of backward states.

(ii) Special Area Development Programmes

The government has formulated specific schemes under various five year plans to develop backward areas such as – hill areas tribal areas and drought prone area. The names of such programmes are Hill Area Development Programme, Integrated Tribal Development Agency (ITDA), Drought Prone Area Programme (DPAP), Desert Development Programme (DDP) and Command Area Development Programme (CADP). Programmes for certain groups who are victims of poverty such as small and marginal farmers, agricultural labourers have also been chalked out in backward areas. (See the anti-poverty and employment generation programmes given earlier).
(iii) **Promotion of Investments**

Various incentives are being given by the central and state governments to promote private investment in backward areas. The central government incentives are as follows:

(a) Income tax concession to new industrial units set up in backward area with effect from April 1974 for a period of 10 years.

(b) Investment subsidy introduced in 1970 provided outright subsidy at the rate of 10 percent subject to a maximum of Rs. 5 lacs on fixed capital investment such as land, building, plant and machinery. This has been raised to 25 percent with a maximum limit of Rs. 50 lacs since 1984.

(c) Transport subsidy scheme was introduced in 1971 particularly in remote and inaccessible areas for a movement of raw-materials and finished products.

(d) Central government has started a scheme to develop growth centres through infrastructure development in “non-industry districts”.

The incentives provided by state government include the following –

(a) provision of developed plot of land with water and power facilities,

(b) exemption from water and electricity charges, octroi duties and payment of property taxes for some years,

(c) interest fee loans and sales tax dues

(d) subsidy on industrial housing scheme and

(e) preference for purchase of stores etc. in backward region.

Finally the three major public sector financial institutions namely Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI) and Industrial Credit and Investment Corporation of India (ICICI) provide concessional finance for industrial projects located in backward areas in the form of lower interest on rupee loans, longer period of repayment, waiving of commitment charges, participation in risk capital or debenture issues, lower rate for underwriting commission etc. They also prepare feasibility study of projects and run training programme for small and medium entrepreneurs.
LESSON 4

ECONOMIC REFORMS IN INDIA

Studying this chapter should enable you to understand:

- Financial Sector Reforms
- Fiscal Sector Reforms
- Trade Sector Reforms

Introduction:

The reform process initiated in India in the year 1991 was multidimensional and aimed to make changes on many fronts. The reform measures are a complete break away from the earlier policy approach which was characterized by extensive government control over private sector activity, a preferred position for the public sector over the private sector, high levels of protection to encourage domestic production and a restrictive approach to foreign investment. The principal areas in which reforms were initiated in India are listed below:

1. Financial Sector Reforms
2. Fiscal Reforms
3. Trade Reforms

These are discussed as follows:

1. Financial Sector Reforms:

Financial sector reforms in India were initiated in the early 1990s based on the recommendations of Mr. M.N. Narasimham. The basic objective of the reform process was to create an efficient, competitive and stable financial sector that could stimulate economic growth. Till the early 1990s, Indian financial system was characterized by extensive regulations such as administered interest rates, directed credit programmes, capital control, weak banking structure, lack of proper accounting and lack of transparency in operations of major financial market participants (Mohan, 2004b). The three major areas of financial sector reforms are as follow:

(A) Banking Sector Reforms
(B) Capital Market Reforms
(C) Insurance Sector Reforms

(A) Banking Sector Reforms:

The main objective of banking sector reforms is to improve the allocative efficiency of resources through operational flexibility, improved financial viability and institutional strengthening. As the Indian banking system was predominantly government owned during the early 1990s, banking sector reforms involves two pronged approach: First, is the gradual increase of the level of competition with focus on better supervisory and prudential norms within banks and second is
the improvement in the legal framework and technological system in banking. The important reform measures initiated in the banking sector are mentioned below:

i) Reduction in Statutory Cash Reserve Requirements (CRR) and Statutory Liquidity Requirements (SLR):

A bank is required to maintain a specified percentage of its deposits as cash with RBI, which is referred to as CRR. The CRR can be a minimum of 3 percent and a maximum of 20 percent. In addition to the CRR, a bank is also required to maintain a specified minimum percentage of its deposits by way of liquid assets like cash, gold or approved securities which is called SLR. The SLR can be a minimum of 25 percent and a maximum of 40 percent. As these reserves earn relatively low rates of interest, the maintenance of high reserve ratios thus have adverse impact on the income of banks. The combined CRR and SLR amounted to 42 percent of deposits in 1980. During 1990’s the figure was raised to 53.5 percent (CRR-15 percent and SLR-38.5 percent). These ratios have gradually been lowered as part of reform process. As on October 2008 SLR stands at 25 percent and CRR at 6.5 percent. These measures would make available greater amount of resources for the commercial loans by banks and thus would have positive impact on their profitability.

ii) Interest Rate Deregulations:

The administered interest rates structure has been gradually dismantled, allowing banks to freely determine deposit and lending rates based on prevailing market conditions. Banks have been provided with full freedom to determine lending rates for loans above Rs. 0.2 million and all deposits rates except savings and the non-resident Indian deposit rate (which are fixed by RBI).

iii) Introduction of Prudential Norms:

A set of prudential norms i.e. capital adequacy, income recognition, asset classification and provisioning norms for non-performing asset, exposure norms, accounting norms has been stipulated so as to provide transparency to the financial reporting and improve public confidence in the banking system. Measures have been initiated to strengthen risk management through recognition of different components of risk, assignment of risk-weights to various asset classes and limits on deployment of fund in sensitive activities. ‘Know Your Customer’ (KYC) and ‘Anti Money Laundering’1 guidelines have been specified to reduce the risk in the banks.

1‘Know Your Customer’ (KYC) and ‘Anti Money Laundering’ guidelines require banks to be familiar with their customers and their monetary dealings better, so that it can administer their accounts carefully.

iv) Supervisory Measures:

As part of new supervisory strategy, an independent Board for Financial Supervision (BFS) has been established. The Board focuses on off-site and on-site inspections and regulation of internal control system of banks. CAMELS2 supervisory rating system has been initiated. There is a move towards risk-based supervision and consolidated supervision of Financial Conglomerates3. The statutory audit focused on the analysis of internal control. There is an enhanced emphasis on corporate governance through recasting of the role of statutory auditors and ‘fit and proper’ test for directors and due diligence on important shareholders.
v) **Competition Enhancing Measures:**

In order to improve the competition among the banks the following measures have been adopted:

- **Reduction of entry barriers for Private Banks**
  
  Transparent norms have been specified for entry of Indian private sector, foreign and joint-venture banks and insurance companies in the banking sector. Foreign investment is permitted in the financial sector in the form of Foreign Direct Investment (FDI) as well as portfolio investment. Banks are allowed to diversify their product portfolio and business activities.

- **Public Sector Bank’s Reforms**
  
  Operational autonomy has been granted to the public sector banks. The government shareholding has been reduced in public sector banks by allowing them to raise capital from the equity market up to 49 per cent of paid-up capital.

- **Creation of Financial Conglomerates:**
  
  The guidelines for mergers and amalgamation of banks and Non-bank financial Companies (NBFCs) have been specified so as to allow establishment of financial conglomerates that offer a variety of financial services.

vi) **Institutional and Legal Measures:**

The reform measures to improve the institutional and legal system that governs banks are mentioned below:

1. **CAMELS** is the acronym for Capital adequacy, Asset quality, Management, Earnings and Liquidity and System
2. Financial conglomerates are the multi-purpose and multi-functional financial supermarket that provides a wide range of financial services under one roof.

- Setting up of Lok *Adalats* (people’s courts), debt recovery tribunals, asset reconstruction companies, settlement advisory committees, corporate debt restructuring mechanism, *etc.* for quicker recovery of bank’s loans.

- Promulgation of *Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI)* Act, 2002 and subsequent amendment to ensure bank’s rights to recover loans.

- Setting up of Credit Information Bureau of India Limited (CIBIL) for information sharing on defaulters as also other borrowers amongst banks.

vii) **New Instruments & Technology Related Measures**

The electronic technology has been introduced for bank’s transactions, settlement of accounts, bookkeeping and all other related functions. The pace of banks computerization has been enhanced. The Core Banking Systems (CBS) has been initiated in the number of banks to allow customers to avail banking facilities from any branch of the bank any time anywhere. The screen-based trading in government securities has been introduced. The new instruments and services such as credit cards, telebanking, ATMs, retail Electronic Funds Transfer (EFT) and Electronic Clearing Services (ECS) has allowed the development of an efficient and speedy retail payment and settlement systems.
viii) Enhanced transparency and Disclosures:

The new disclosures norms require the greater volume of information to be disclosed as notes on Accounts in their balance sheets. These include major profitability and financial ratios, details of capital structures, as well as movements in non-performing loans, movements in provisions, advances to sensitive sectors, to mention a few. The range of disclosures has gradually been expanded over the years to promote market discipline.

Recent Banking Sector Reforms Measures:

ix) Financial Inclusion

Financial inclusion means providing wider access and better quality of banking services to the larger section of society. Bank nationalization has been quite successful in broadening the area coverage of banks. However, due to the emphasis on the commercial considerations banks tend to exclude a large section of population especially rural or urban poor, people in the unorganized sector etc. RBI has urged banks to review the existing banking practices and adopt simplified procedures to provide banking services to small users.

x) Internet and Mobile-Banking

Internet banking enables a customer to do banking transactions through the bank’s website on the Internet. This is also called virtual banking, or net banking, or anywhere banking. The important advantages to internet banking customers are that it offers convenience and quick processing of transactions. There are growing number of banks that operate online due to cost advantages compared to traditional banks and reduce traditional geographical barriers in reaching to the customers. Mobile banking means performing banking transaction like performing balance checks, account transactions, payments etc. via a mobile device such as mobile phones. Mobile banking today is most often performed via SMS.

An assessment of the banking sector reforms shows that banks have experienced strong balance sheet growth in terms of improved financial health, capital adequacy and asset quality in the post-reform period. The technological improvements have also enabled competitiveness and productivity gains.

(B) Capital Market Reforms:

Extensive capital market reforms were undertaken during the 1990s encompassing legislative regulatory and institutional changes that are discussed as follows:

i) Repeal of Capital Issues Control Act

The requirement of Government permission for companies issuing securities as well as the system of control over the pricing of new issues of equity by private companies has been abolished with the repeal of the capital Issues Control Act in May 1992.

ii) Establishment of Securities and Exchange Board of India (SEBI) as a statutory capital market regulator in 1992 to protect the interests of investors and to promote the development of, and to regulate, the securities market. SEBI is empowered to control entry to the market; monitor market participants; issue regulations and guidelines to establish market standards; prohibit fraudulent and unfair trade practices; regulate substantial acquisitions of shares and takeovers; and to enforce the securities laws.

iii) Technological Innovations:

The technological innovations were initiated by the National Stock Exchange (NSE), an electronic exchange incorporated in November 1992 by major public sector financial institutions.
The NSE began trading in June 1994. It introduced a modern market infrastructure with fully-automated, screen-based trading systems and state of the art settlement systems. The Bombay Stock Exchange (BSE), the oldest and the largest stock exchange in India also adopted modern market infrastructure by 1997. The dematerialization of securities\(^4\) has been initiated to minimize the problems related with physical transfer and custody of securities.

iv) **Significant Participation of Foreign Institutional Investors:**

The increase in confidence, fairness and efficiency of the market, and the elimination of barriers to foreign institutional investment in 1994, has shown a tremendous growth of foreign portfolio investment in the Indian stock market.

v) **Expansion of Mutual Fund Industry:**

The mutual fund industry, like the market, has also expanded at a fast pace. In 1993, private sector mutual funds including funds managed by foreign managers have been permitted. The number of mutual fund schemes has gone up tremendously.

vi) **Creation of Innovative Financial Instruments: Derivative Market**

Derivatives trading\(^5\) in India began in June 2000, with trading in stock index futures contracts has surged tremendously. In 2007, the NSE has become the largest exchange in single stock futures in the world.

vii) **Improved Disclosure Norms and Transparency:**

SEBI has regularly upgraded financial disclosure and corporate governance standards for the market participants that are closer to international standards. The adoption of international quality trading and settlement mechanisms and the reduction of transaction costs have generated enormous interest amongst investors that has helped to create growth in market volume and liquidity. The Indian securities markets present a picture of better efficiency, liquidity, transparency and regulatory mechanisms.

(C) **Insurance Sector Reforms:** The important aspects of insurance sector reforms are as follow:

i) The insurance sector was opened for competition in the year 2000, with government allowing private players both domestic and foreign to operate in both life and non life insurance sectors.

ii) Insurance Regulatory and Development Authority Act, 1999 (IRDA Act) has been enacted. As per the provisions of IRDA Act, 1999, Insurance Regulatory and Development Authority (IRDA) was established on 19th April 2000 to protect the interests of holder of insurance policy and to regulate, promote and ensure orderly growth of the insurance industry.

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\(^4\)Dematerialization basically means holding securities in the electronic form instead of holding them physically

\(^5\)Derivative securities refer to securities which have no tangible worth of their own and which derive their value form the underlying main security.
Concept-Check Questions

Q Explain the objectives of financial sector reforms in India.

Q. Explain the following terms:

- Core Banking Systems (CBS)
- Mutual Fund
- Derivative security
- Process of Dematerialization
- Financial Inclusion
- Internet Banking
- Cash Reserve Requirements (CRR) and
- Statutory Liquidity Requirements (SLR)

Q What are measures initiated to improve competition in the banking system.

2. Fiscal Reforms:

The fiscal reforms are aimed at reducing the financial burden of the Government. The comprehensive fiscal reform programme at the Central Government level was initiated only at the beginning of the 1990s as part of the economic adjustment programme initiated in 1991-92. On the other hand, in the case of States, efforts towards fiscal adjustment began only in the late 1990s. The important elements of Fiscal reforms are as follows:

A) Tax Reforms

B) Government’s Expenditure Management

C) Systemic Reforms in Government's Borrowing Process

D) Fiscal Consolidation

A) Tax Reforms:

Restructuring of the tax system constitute a major component of fiscal reforms with the objective to improve revenues collections, removing anomalies and inefficiencies in the tax structure. The main focus of the tax reforms was on simplification and rationalization of both direct and indirect taxes drawing mainly from the recommendations of the Tax Reforms Committee, 1991 (Chairman: Raja J. Chelliah). Since tax rates were high and the structure of taxes was highly complex, the Tax Reforms Committee recommended the adoption of small number of simple broad-based taxes with moderate and limited number of rates and with very few exemptions and deductions. The important tax reforms initiated are as follows:

i) Drastic reduction in the personal income tax rate from marginal personal income tax rate of 60 percent during 80’s to the present level of 33 percent (with 3 percent of education cess)

ii) Reduction in the corporate tax rate on both domestic and foreign companies to the current level of 33 percent and 40 percent, respectively, from a level of 65 per cent and 70 per cent during 80’s.

iii) Rationalization of tariff rates through drastic reduction in both average and peak tariff rates. The peak rate of customs duty on non-agricultural products was reduced to 10 per cent in 2007-08 from 355 percent in 1990-91 with a very few exceptions.
iv) There has been a considerable simplification and rationalization of union excise duties as well. Besides reduction in the number of rates, the tax has been progressively converted from a specific into *ad valorem* levy (i.e. based on the value of the goods) in respect of the majority of commodities.

v) Rationalizing sales tax by replacing it with Value Added Tax (VAT) in 2005. The state VAT only taxes goods and allow input tax credit. The cascading effect of central indirect taxes has been reduced by introducing a Modified Value Added Tax (MODVAT) which was restructured into CENVAT (Central Value Added Tax). Under the CENVAT Scheme, a manufacturer of final product or provider of taxable service shall be allowed to take credit of duty of excise as well as of service tax paid on any input received in the factory or any input service received by manufacturer of final product.

vi) Improvement of the tax base by introducing the selective tax on services.

B) Government’s Expenditure Management

The expenditure reforms aimed at curtailing government expenditure. The government appointed the Expenditure Reforms Commission to look into areas of expenditure correction. Based on the recommendations of the commissions the important expenditure reform measures undertaken are as follows:

i) Measures have been taken in order to curb the built-in growth in expenditure all the ongoing government’s schemes would be subject to zero based budgeting. Further the assessment of manpower requirements of all government departments will be performed;

ii) Optimizing government staff strength through a ban on the creation of new posts for a specified period;

iii) Introduction of the Voluntary Retirement Scheme and the redeployment of surplus staff in various government departments;

iv) Creation of a national food security buffer stock and minimization of cost of buffer stock operations;

v) Rationalization of fertilizer subsidies through dismantling of controls in a phased manner;

vi) Dismantling of the Administered Price Mechanism in the petroleum sector and the Oil Pool Account which became effective from April 2002 in order to make a gradual shift towards a pricing based on market dynamics and reduce subsidies on crude oil products.

C) Systemic reforms in Government's borrowing process

The significant changes in the process of central government borrowings to meet the budgetary deficits and temporary mismatches have been part of the fiscal sector reforms. The important reform measures are as follows:

i) Switchover to borrowings by government at market related interest rates,

ii) Abolition of the system of automatic monetization of the budget deficit. The system of *Ways and Means Advances* (WMA) has been started which requires vacation (or repayment) of advances made by the RBI to the government within specified period of time. The limits of such
advances are fixed by RBI. In this manner the limits are imposed on government’s borrowings and so it become responsible for managing their own ways and means of funds position. The rate of interest charged on WMA at present is the Bank Rate (i.e. 9 per cent)

iii) Developing as well as deepening government securities market.

These measures of reduction in monetization and allowing market borrowings have helped to curb the fiscal deficit by inducing fall in the government expenditure.

D) Fiscal Consolidation

Fiscal consolidation is a policy aimed at reducing government deficits and debt accumulation. Government deficits are one of the important indicators of fiscal health. India has seen deficits in central government accounts on almost all indicators fiscal deficit, primary deficit, revenue deficit\(^6\) - since the 1970s and this situation worsened in the mid-1980s.

The latter half of the 1980s saw fiscal deficits in the range of 7-8% of GDP and the gross primary deficit and revenue deficit were also in the ranges of 4-5% of GDP and 2-3% of GDP respectively. Fiscal consolidation, therefore, was the major focus of the reform process introduced in 1991-92. The period 1991-92 to 1996-97 with the exception of 1993-94 had seen improvement in the situation with a decline in the fiscal deficit as well as other deficit indicators as a percentage of GDP. However, the later 1990s and early 2000s have seen a reversal of this trend and the major deficit indicators climbed back to near-about their early 1991-92 levels with revenue deficit showing continued deterioration. Consequently, greater attention is being focused on the size of these deficits and efforts were undertaken towards better deficit management -the Fiscal Responsibility and Budget Management Act, 2003 (FRBM, 2003) being one measure for the purpose. The act provides the responsibility on the Central Government to ensure equity in the fiscal management and long term macro-economic stability. The fiscal sustainability is sought to be achieved through limits on Government borrowings, debt and deficits, greater transparency in fiscal operations of the Government. The important provisions of the act are as follows:

i) The FRBM Rules impose limits on fiscal and revenue deficit. Hence, it will be the duty of the Union government to stick to the deficit targets. As per the target, revenue deficit, have to be reduced to nil by 2008-09 which has been extended by one year. Each year, the government is required to reduce the revenue deficit by 0.5% of the GDP. The fiscal deficit is required to be reduced to 3% of the GDP by 2008-09. It would mean reduction of fiscal deficit by 0.3% of GDP every year. The act however, provides for the relaxation from deficit reduction targets to deal with unforeseen demands on the finances of the Central Government on account of national security or natural calamities of national dimension.

ii) The deficits will be monitored through the rules on mid-year targets for fiscal and revenue deficits. The Rules required the government to restrict fiscal and revenue deficit to 45% of budget estimates at the end of September (first half of the financial year). In case of a breach of either of the two limits, the FM will be required to explain to parliament the reasons for the breach, the corrective steps, as well as the proposals for funding the additional deficit.

\(^6\) Fiscal Deficit = Total Govt. expenditure (both revenue and capital) plus net lending - (total revenue receipts + non-debt capital receipts). Fiscal deficit thus indicates the total shortfall in non-debt resources to finance government expenditure.

Revenue Deficit= Revenue expenditure minus revenue receipts

Primary Deficit =Fiscal Deficit- Interest payments
iii) The Act prohibits the Central Government from borrowing from the Reserve Bank of India (that is deficit financing, involving the printing of money) to meet its deficit, except for temporary cash advances. This effectively rules out a cheap source of borrowing and forces the government to borrow at much higher rates, for no evident reason. The RBI is prohibited from making primary market purchases of government bonds.

iv) The Act also provides that the central government shall specify the annual targets of assuming contingent liabilities in the form of guarantees and the total liabilities as a percent of GDP.

v) The Act provides for the improvement in the transparency of budgetary policy through Quarterly progress reviews that have to be placed before Parliament, annual publishing of government’s asset register. The government is also required to place three documents before Parliament every year: one is the assessment of economic prospects; second, is its strategy with regard to taxation and expenditure; and the final one giving a three-year rolling target for the revenue balance and the overall fiscal balance.

The implementation of FRBM Act, 2003 thus has provided the required mandate and lent credibility to the fiscal reforms process. The act involves significant reforms to both revenue and expenditure. The fiscal deficit of the Centre as a proportion of GDP came down from 5.9 per cent in 2002-03 to 3.4 per cent in 2006-07 and is estimated to further decline to 3.3 per cent in 2007-08. Similarly, the revenue deficit declined from 4.4 per cent in 2002-03 to 1.9 per cent in 2006-07 and is estimated to further decline to 1.5 per cent in 2007-08 (Economic Survey, 2008). Further, as a result of consolidation, government interest payments and subsidies are declining as a percentage of GDP. The combined liabilities of the states and central government have fallen from a peak of 82% of GDP in 2004 to 77% in 2008 (RBI annual report, 2008).

Concept-Check Questions

Q1. What are the objectives of fiscal reforms in India?

Q2. Explain:
   - Ways and Means (WMA)
   - Implication of FRBM act on fiscal consolidation
   - Major Tax Reforms

3. Trade Reforms:

The main thrust of trade reforms have been to open up India’s trade. The policy measures mainly put emphasis on the export promotion and import liberalization. The important elements of trade reforms are as follows:

i) Simplification of custom tariff structures:

The tariff structures have become simpler and the tariff rates have declined dramatically. For example as mentioned earlier the peak rate of customs duty on non-agricultural products was reduced to 10 per cent in 2007-08 from 355 percent in 1990-91 with a very few exceptions.

ii) Elimination of quantitative restrictions on imports (in terms of quotas and import licensing requirements):
The import control regime earlier applicable to imports of raw materials, other inputs, production and capital goods has been virtually dismantled. Today, all raw materials, other inputs and capital goods, can be freely imported except for a relatively small negative list.

**iii) Transformation of exchange rate policy:**
Exchange rate policy has gone through a series of changes since 1991. The reforms began with a devaluation of about 24 percent in July 1991 accompanied by export incentives in the form of special incentive licenses (Eximscrips) given to exporters which could be used to import items which were otherwise restricted. The system was modified in March 1992 by the introduction of an explicit dual exchange rate system. Under this system the exporters were to surrender 40% of their export earnings at the official rate and the rest 60% was made available for imports at market determined exchange rate. In March 1993, India shifted to market determined exchange rate.

**iv) Current Account Convertibility:**
In 1993, government allowed Current account convertibility which means free inflows and outflows of foreign currency for all purposes other than for capital purposes at market determined exchange rate. Capital controls however remain in place.

**v) Export-friendly environment:**
The trade reforms focused on simplifying the exports procedures and exports promotion. Export promotional measures were introduced in the Export Import (EXIM) policies from time to time. These measures include liberalized capital goods imports under export promotion capital goods (EPCG) schemes, duty exemption scheme on imports for exports, special concessions on agricultural exports, tax concessions to Exports Oriented Units (EOUs) etc. Further, the announcement of a new **Foreign Trade Policy (FTP) 2004-09** for a five year period is another step in this direction. The FTP, **2004-09** outlines export incentives, and also addresses issues concerning institutional support to improve exports. These measures are expected to enhance India's international competitiveness and help in increasing the acceptability of Indian exports.

**Concept-Check Questions**

Q1. What do you mean by the current account convertibility?

Q2. What are the steps taken in context to import liberalization and export promotion under new FTP2004-09?
LESSON 5

HEALTH AND EDUCATION POLICY IN INDIA

:A CRITICAL VIEW

-- Indrasekhar Yadav

National Health Policy in India

The National Health Policy (NHP) formulated in 1983, had remarkable changes in the determinant factors relating to the Indian health sector. Some of the policy initiatives outlined in the NHP of 1983 have yielded satisfactory results. However, in several other areas, the outcome has not been as expected. The NHP of 1983 gave a general exposition of the policies which required recommendation in the circumstances then prevailing in the health sector.

The important initiatives under that policy were: Firstly, a phased, time-bound programme for setting up a well dispersed network of comprehensive primary health care services, linked with extension and health education, designed in the context of the ground reality that elementary health problems can be resolved by the people themselves. Secondly, intermediation through health volunteers having appropriate knowledge, simple skills and requisite technologies. Thirdly, establishment of a well-worked out referral system to ensure that patient load at the higher levels of the hierarchy is not needlessly burdened by those who can be treated at the decentralized level and finally, an integrated net-work of evenly spread specialty and super-specialty services; encouragement of such facilities through private investments for patients who can pay, so that the draw on the Government’s facilities is limited to those entitled to free use.

Government initiatives in the pubic health sector have recorded some noteworthy successes over time. Smallpox and Guinea Worm Disease have been eradicated from the country; Polio is on the verge of being eradicated; Leprosy, Kala Azar, and Filariasis can be expected to be eliminated in the foreseeable future. There has been a substantial drop in the Total Fertility Rate and Infant Mortality Rate.

A brief Critique of National Health Policy (2002)

The Ministry of Health and Family Welfare, Govt. of India has promulgated the National Health Policy (NHP) after a gap of 18 years, ever since the first attempt was made in 1983. This was necessitated due to the demographic changes, epidemiological transition including newer public health challenges; technological advancements, rising aspirations of the community and increasing globalization.

It was thought that the policy will catalyze the growth and development of the sector to enhance the equitable coverage with improvement in the quality of services. However, the new policy is a mixed bag. It does dwell upon the government’s intent to be more meaningful and focused in attempting to provide healthcare to all, yet it is strongly felt that it lacks in being specific with regard to the responsibilities and accountability for each of the strategic endeavors.

An example of such specificity is seen in the area of Medical Ethics, wherein the Medical Council of India, has been charged with the responsibility of implementation. Similar specificity in other areas would have helped in achieving and monitoring outcomes in the proposed policy. The policy clearly identifies itself to be a definition of vision statement for the future. It does not claim to be a road map for meeting all the health needs of the country but focuses on enhancing
the overall public health investments to 2 per cent of GDP, while defining the specific role and share of the Centre and the States in achieving this target.

It is however, felt that the inclusion of strategic directions with allocation of responsibility and accountability would have made it a much more powerful instrument. The policy attempts to quantify the magnitude of problems and specify targeted goals to be achieved. A strategy for financial allocation and resource mobilization is also suggested. It talks of integration of various National Health Programmes for optimizing the resources and also the synchronization of National Population Policy 2000 and NHP.

Regarding equitable health coverage for all, there is a discernible focus towards removal of inequities and imbalances rather than just the regional imbalances - a positive shift. However, the usage of ‘equity’ in the health sector as the only major parameter for any future evaluation of the success or failure of the policy is an area of major concern. It places in the hands of administrators or those responsible for attaining the goals, a lever to manage the outcomes while the actual delivery may refute the claims.

For the first time a specific inclusion of ‘Women’s Health’ has been made. The concept of a healthy woman having a far-reaching impact in improvement of the health status of a community has seen some acceptance this time and this is really a welcome step. This time, there is a clear direction towards an overall strategy that not only addresses the deficiency of different categories of manpower but also includes a mechanism to orient the training of these health professionals to the health needs of the country. It mentions the creation of a mechanism to augment the infrastructure and to ensure the establishment of a quality assurance process in training and development. The policy talks of creating standards and quality assurance programme which is a laudable attempt to recognize the need to move ahead in this direction.

Incorporation of medical ethics, as another area to be covered in the policy, reinforces the attention being given to overall quality assurance mechanisms. Recognition of newer tools from the arena of Information technology, tele-medicine and networking in the delivery of tertiary care services is a positive signal to enhance the delivery and impact of healthcare services. The biggest inadequacy of the overall attitude in drafting the contents of policy is reflected in not giving due recognition to the role being played by non-government sector - voluntary trust/societies or private. The role and responsibilities envisaged for the different sectors should have been more explicitly defined with a clear recognition that in certain sectors (such as tertiary care); the private sector was expected to play the pivotal role. Hence, the policy could have been more specific in addressing the critical issue of ‘the independent responsibilities of the private sector and also the areas for public & private participation and co-operation.’

Ultimately, NHP 2002 has turned out to be an exercise that has lost the opportunity to be the watershed in development and growth of the sector, that generates the maximum employment and would have catalyzed a healthy population with enhanced economic productivity.

**National Policy on Education: A Critical Assessment**

Since Independence, successive Indian governments have had to address a number of key challenges with regard to education policy, which has always formed a crucial part of its development agenda. The key challenges are: improving access and quality at all levels of education; increasing funding, especially with regard to higher education; improving literacy rates.

Currently, while Indian institutes of management and technology are world-class, primary and secondary schools, particularly in rural areas, face several challenges. While new governments commonly pledge to increase spending on education and bring in structural
reforms, this has rarely been delivered in practice. Therefore, improving the standards of education in India is always a critical test for the current government. It will need to resolve concerns over the content of the curriculum, as well as tackling the underlying challenges to education.

India’s education system turns out millions of graduates each year, many skilled in IT and engineering. This manpower advantage underpins India’s recent economic advances, but masks deep seated problems within India’s education system. While India’s demographics are generally perceived to give it an edge over other economies (India will have a youthful population when other countries have ageing populations), if this advantage is restricted to small, highly educated elite, the domestic political ramifications could be severe.

With 35 per cent of the population under the age of 15, India’s education system faces numerous challenges. Successive governments have pledged to increase spending on education to 6 per cent of GDP, but actual spending has hovered around 4 per cent only. While, at the top end, India’s business schools, Indian Institutes of Technology (IITs), Indian Institutes of Management (IIMs) and universities produce globally competitive graduates, primary and secondary schools, particularly in rural areas, struggle to find staff. Indian governments have seen education as a crucial development tool.

Since Independence, the education policies of successive governments have built on the substantial legacies of the Nehruvian period, targeting the core themes of plurality and secularism, with a focus on excellence in higher education, and inclusiveness at all levels. In reaching these goals, the issue of funding has become problematic; governments have promised to increase state spending while realizing the economic potential of bringing in private-sector financial support.

Drawing on Nehru’s vision, and articulating most of his key themes, the Kothari Commission (1964–6) was set up to formulate a coherent education policy for India. According to the commission, education was intended to increase productivity, develop social and national unity, consolidate democracy, modernize the country and develop social, moral and spiritual values. To achieve this, the main pillar of Indian education policy was to be free and compulsory education for all children up to the age of 14.

Other features included the development of languages (Hindi, Sanskrit, regional languages and the three-language formula), equality of educational opportunities (regional, tribal and gender imbalances to be addressed) and the development and prioritization of scientific education and research. The commission also emphasized the need to eradicate illiteracy and provide adult education. India’s curriculum has historically prioritized the study of mathematics and science rather than social sciences or arts. This has been actively promoted since the Kothari Commission, which argued that India’s development needs were better met by engineers and scientists than historians.

In 1986, a new National Policy on Education (NPE) was announced, which was intended to prepare India for the 21st century. The policy emphasized the need for change.

According to the new policy, the 1968 policy goals had largely been achieved and more than 90 per cent of the country’s rural population was within a kilometer of schooling facilities and most states had adopted a common education structure. The prioritization of science and mathematics had also been effective. However, change was required to increase financial and organizational support for the education system to tackle problems of access and quality.

The new policy of 1986 was intended to raise education standards and increase access to education. At the same time, it would safeguard the values of secularism, socialism and equality
which had been promoted since Independence. Towards this end, the government would seek financial support from the private sector to complement government funds. The central government also declared that it would accept a wider responsibility to enforce ‘the national and integrative character of education, to maintain quality and standards’.

The states, however, retained a significant role, particularly in relation to the curriculum. The central government committed itself to financing a portion of development expenditure, and around 10 per cent of primary education is now funded under a centrally sponsored scheme. The key legacies of the 1986 policy were the promotion of privatization and the continued emphasis on secularism and science. Another consequence of the NPE was that the quality of education in India was increasingly seen as a problem, and several initiatives have been developed since in an attempt to counter this:

In 1992, the education policy was re-examined and it was found to be a sound way forward for India’s education system, although some targets were recast and some re-formulations were undertaken in relation to adult and elementary education. The new emphasis was on the expansion of secondary education, while the focus on education for minorities and women continued.

Despite Nehru’s visions of universal education, and the intentions of the Kothari Commission to provide all young children with free and compulsory schooling, a significant proportion of India’s young population remained uneducated by the 1970s. To address this problem, the Centrally Sponsored Scheme of Non Formal Education was set up to educate school dropouts, working children and children from areas without schools. It started on a pilot basis in 1979 and expanded over the next few years to cover ten educationally backward states. In the 1980s, 75 per cent of those children not enrolled in school resided in these states.

Despite efforts to incorporate all sections of the population into the Indian education system, through mechanisms such as positive discrimination and non-formal education, large numbers of young people are still without schooling. Although enrolment in primary education has increased, it is estimated that at least million, and possibly as many as 60 million, children aged 6–14 years are not in school. Severe gender, regional, and caste disparities also exist. The main problems are the high drop-out rate, especially after Class tenth, low levels of learning and achievement, inadequate school infrastructure, poorly functioning schools, high teacher absenteeism, the large number of teacher vacancies, poor quality of education and inadequate funds.

Other groups of children ‘at risk’, such as orphans, child-labourers, street children and victims of riots and natural disasters, do not necessarily have access to schools. Furthermore, there is no common school system; instead children are channeled into private, government-aided and government schools on the basis of ability to pay and social class.

At the top end are English-language schools affiliated to the upscale CBSE (Central Board of Secondary Education), CISCE (Council for the Indian Schools Certificates Examination) and IB (International Baccalaureate) examination boards, offering globally recognized syllabuses and curricula. Those who cannot afford private schooling attend English-language government-aided schools, affiliated to state-level examination boards.

And on the bottom rung are poorly managed government or municipal schools, which cater for the children of the poor majority. Therefore, while education for all is safeguarded by the Constitution, and a majority of people can now access educational resources, the quality of the education that young people in India receive varies widely according to their means and background, which is a worrying and problematic trend.
In India’s 600,000 villages and multiplying urban slum habitats, ‘free and compulsory education’ is in fact basic literacy instruction dispensed by barely qualified ‘Para teachers’. The thrust on elementary education over the last two decades and the growing aspirations of poor communities resulting from their participation in a political democracy have already led to a situation where most children at age six are enrolling in schools/learning centers and residential bridge courses. However, the poor quality of these schools and their rudimentary physical and human infrastructure often lead to children dropping out of the school system without learning or continuing in it with limited learning. An emphasis on food, livelihood and health guarantees is therefore simultaneously required to level out the initial disadvantages of the poor in the educational sphere stemming from malnourishment, poverty, and health-related debility.

Under the Constitution, the financial responsibility for education is shared between central and state governments. The central government sets policy, stimulates innovation and plans frameworks. The state governments are responsible for running the education system on the ground. This has exacerbated problems since states have differing resources to allocate to education. It is the inadequacy of resources that has recently become the most pressing and central issue. Allocation is another issue. When resources are scarce, what are the state’s priorities? In general southern, richer states do better than the poorer ones.

The standard of educational facilities, and the quality of education, are generally higher in primary and secondary schools in richer states than poorer ones, such as Bihar and Jharkhand. In higher education, differing availability has itself contributed to the economic differences. The IT-based success of southern states owes much to their higher number of engineering colleges, and consequent greater pool of graduates. The number of engineering colleges demonstrates incredible diversity, and has helped contribute to the concentration of high-technology industry in southern India. But the disparity between these states and northern states is dramatic; Bihar, for instance, has less than one engineering college for every 10 million people in the state; Tamil Nadu has almost four colleges for every million people.

Negotiating the need to share the burden of funding higher education between the public and private sectors has been a continual problem for the Indian government. For example, the 1986 reforms reinforced the independent status of higher education institutions, but led to a gradual decline in government expenditure in this area. The government faced a serious resource crunch and decided to reduce the subsidization of higher education by around 50 per cent. Two committees were set up to mobilize additional resources for universities and technical education institutions. Universities were encouraged to raise fees and to turn to the private sector for additional funding. Consequently, the balance between the public and private sectors becomes almost synonymous with a balance between excellence and access. While it is important for India to produce top quality graduates, it is equally important that the opportunity to gain a degree is not restricted to privileged communities.

Therefore it becomes clear that the same difficulties that existed nearly sixty years ago remain largely unsolved today – for example, the need to safeguard access to education for the poorest and most disenfranchised communities of India.
(i) Science and Technology, Policy and Growth

Introduction

India is one of the top-ranking countries in the field of basic research of science and technology. Indian Science has come to be regarded as one of the most powerful instruments of growth and development, especially in the emerging scenario and competitive economy. The development of Indian science and technology has enabled India not only to understand the technologies that the country may have to borrow, but also to create the country’s own technologies with extensive scientific inputs of indigenous origin.

Since Independence, India has been committed itself to promote the spread of science and technology to all the sectors of the economy. The key role of technology as an important element of national development is also well recognized by the government of India. The Scientific Policy Resolution of 1958 and the Technology Policy Statement of 1983 enunciated the principles on which the growth of science and technology in India has been based over the past several decades. These policies have emphasized self-reliance, as also sustainable and equitable development. They embody a vision and strategy that are applicable today, and would continue to inspire us in our endeavors.

With such an encouraging approach adopted by the government of India, today a sound infrastructural base for science and technology has been built. These include research laboratories, higher educational institutions and highly skilled human resource. Indian capabilities in science and technology cover an impressive range of diverse disciplines, areas of competence and of applications. India's strength in basic research is recognized internationally. Successes in agriculture, health care, chemicals and pharmaceuticals, nuclear energy, astronomy and astrophysics, space technology and applications, defense research, biotechnology, electronics, information technology and oceanography are widely acknowledged. Major national achievements include very significant increase in food production, eradication or control of several diseases and increased life expectancy of Indian citizens.

Today India has become one of the strongest in the world in terms of scientific manpower in capability and maturity. Basically, it has been believed that the advancement of science and technology will affirm the intellectual capital of scientific and engineering community. Therefore, science and technology directly or indirectly grapples with the key challenges facing the country. These key challenges include the pressures of increasing population, greater health risks, changing demographics, degraded natural resources, and dwindling farmlands. To address these fundamental challenges today India needs new science and technologies, new priorities and new paradigms.

Science and technology have had unprecedented impact on economic growth and social development. Knowledge has become a source of economic might and power. India, today continues to be firm in its resolve to support science and technology in all its facets. It recognizes its central role in raising the quality of life of the people of the country, particularly of the disadvantaged sections of society, in creating wealth for all, in making India globally competitive, in utilizing natural resources in a sustainable manner, in protecting the environment and ensuring national security.
Objective of Indian Science and Technology Policy in India

Recognizing the changing context of the scientific enterprise, and to meet present national needs in the new era of globalization, Government of India enunciates the following objectives of its Science and Technology Policy:

- To ensure that the message of science reaches every citizen of India, man and woman, young and old, so that we advance scientific temper, emerge as a progressive and enlightened society, and make it possible for all our people to participate fully in the development of science and technology and its application for human welfare. Indeed, science and technology will be fully integrated with all spheres of national activity.
- To ensure food, agricultural, nutritional, environmental, water, health and energy security of the people on a sustainable basis.
- To mount a direct and sustained effort on the alleviation of poverty, enhancing livelihood security, removal of hunger and malnutrition, reduction of drudgery and regional imbalances, both rural and urban, and generation of employment, by using scientific and technological capabilities along with our traditional knowledge pool. This will call for the generation and screening of all relevant technologies, their widespread dissemination through networking and support for the vast unorganized sector of our economy.
- To vigorously foster scientific research in universities and other academic, scientific and engineering institutions; and attract the brightest young persons to careers in science and technology, by conveying a sense of excitement concerning the advancing frontiers, and by creating suitable employment opportunities for them. Also to build and maintain centres of excellence, which will raise the level of work in selected areas to the highest international standards.
- To promote the empowerment of women in all science and technology activities and ensure their full and equal participation.
- To provide necessary autonomy and freedom of functioning for all academic and R&D institutions so that an ambience for truly creative work is encouraged, while ensuring at the same time that the science and technology enterprise in the country is fully committed to its social responsibilities and commitments.
- To use the full potential of modern science and technology to protect, preserve, evaluate, update, add value to, and utilize the extensive knowledge acquired over the long civilization experience of India.
- To accomplish national strategic and security-related objectives, by using the latest advances in science and technology.
- To encourage research and innovation in areas of relevance for the economy and society, particularly by promoting close and productive interaction between private and public institutions in science and technology. Sectors such as agriculture (particularly soil and water management, human and animal nutrition, fisheries), water, health, education, industry, energy including renewable energy, communication and transportation would

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1 This section is largely drawn from the web site of Department of Science and Technology, Government of India.
be accorded highest priority. Key leverage technologies such as information technology, biotechnology and materials science and technology would be given special importance.

- To substantially strengthen enabling mechanisms that relate to technology development, evaluation, absorption and upgradation from concept to utilization.

- To establish an Intellectual Property Rights (IPR) regime which maximizes the incentives for the generation and protection of intellectual property by all types of inventors. The regime would also provide a strong, supportive and comprehensive policy environment for speedy and effective domestic commercialization of such inventions so as to be maximal in the public interest.

- To ensure, in an era in which information is key to the development of science and technology, that all efforts are made to have high-speed access to information, both in quality and quantity, at affordable costs; and also create digitized, valid and usable content of Indian origin.

- To encourage research and application for forecasting, prevention and mitigation of natural hazards, particularly, floods, cyclones, earthquakes, drought and landslides.

- To promote international science and technology cooperation towards achieving the goals of national development and security, and make it a key element of our international relations.

- To integrate scientific knowledge with insights from other disciplines, and ensure fullest involvement of scientists and technologists in national governance so that the spirit and methods of scientific enquiry permeate deeply into all areas of public policy making.

It is recognized that these objectives will be best realized by a dynamic and flexible Science and Technology Policy, which can readily adapt to the rapidly changing world order. This Policy, reiterates India's commitment to participate as an equal and vigorous global player in generating and harnessing advances in science and technology for the benefit of all humankind.

(ii) Information Technology (IT) and India’s Economic Growth

Information technology has played a very significant role in transforming India. Today the success of IT industry and its rapidly capturing global imagination has placed India at the forefront of the emerging global knowledge economy. According to the apex body for software services in India, National Association of Software and Service Companies (NASSCOM) the revenue of the IT sector has grown from 1.2 per cent of the gross domestic product (GDP) in 1997-98 to an estimated 5.5 per cent in 2007-08. During 2007-08, the net value added by this sector in the economy is estimated to be about 3.3 to 3.9 per cent.

In India IT growth is primarily dominated by IT software and services such as Custom Application Development and Maintenance (CADM), System Integration, IT Consulting, Application Management, Infrastructure Management Services, Software testing, Service-oriented architecture and Web services. The contribution of IT sector in India in the overall growth of exports is enormous. For instance, the government of India projects the exports turnover to touch US$ 80 billion by 2011, growing at an annual rate of 30 per cent per annum, which was few million dollars in early 1990s.

The contribution of IT sector in India overall generation of exports revenue and its impact on India’s growth and development can be assessed with the latest NASSCOM findings which are listed below.
As per NASSCOM's latest findings:

Indian IT-BPO sector grew by 33 per cent in 2007-08 to reach US$ 64 billion in aggregate revenue including hardware. Out of this, the contribution of software and services segment accounted for US$ 52 billion, growing by 28 per cent over 2006-07. Software and services exports including exports of IT services, BPO, engineering services and Research and Development and software products reached US$ 40.4 billion, contributing nearly 63 per cent to the overall IT-BPO revenue aggregate.

IT-BPO exports including hardware exports grew by 28 per cent from US$ 31.8 billion in 2006-07 to US$ 40.9 billion in 2007-08. While the US (61 per cent) and the UK (18 per cent) remained the largest IT-BPO export markets in 2006-07, the industry is now making a mark in other countries as well - with exports to Continental Europe in particular, growing at a compound annual growth rate of more than 55 per cent over the period of 2004-07.

Domestic IT market including hardware reached US$ 23.1 billion during 2007-08 as against US$ 16.2 billion during 2006-07, a growth of 43 per cent. Hardware remained the largest segment of the domestic market with a growth rate of 44 per cent in 2007-08. Software and services spending grew by over 41 per cent during the year.

The industry's vertical market exposure was well diversified across several mature and emerging sectors. Banking, financial services and insurance remained the largest vertical market for Indian IT-BPO exports, followed by high-technology and telecom. These sectors together accounted for nearly 60 per cent of the Indian IT-BPO exports in 2006-07. Manufacturing, retail, media, healthcare, airlines and transportation, and utilities were the other key segments.

Moreover, according to a study by Springboard Research, the Indian IT services market is estimated to remain the fastest growing in the Asia-Pacific region with a CAGR of 18.6 per cent.

Outsourcing

A research by Gartner forecasts India as the undisputed leader in the outsourcing space in the year 2008. The Outsourcing Service Provider Performance Study 2007, undertaken by sourcing advisory firm Equa Terra, reported that the majority of UK businesses offshore all or parts of their IT functions to India and plan to continue with this strategy as India continued to be the favourite outsourcing destination for businesses in UK in terms of satisfaction.

India's most prized resource is its readily available technical work force. India has the second largest English-speaking scientific professionals in the world, second only to the US. It is estimated that India has over 4 million technical workers, over 1,832 educational institutions and polytechnics, which train more than 67,785 computer software professionals every year. The enormous base of skilled manpower is a major draw for global customers. According to a Gartner study, India remains the undisputed leader in offshore services and tops the list of 30 countries on criteria's such as language, government support, labour pool, infrastructure, educational system, cost, political and economic environment, cultural compatibility, global and legal maturity, and data and intellectual property, security and privacy.

Twenty-nine India-based companies including Tata Consultancy Services, HCL Technologies, Genpact, and WNS Global Services amongst others, have been listed among the best 100 IT service providers in a new survey carried out with a view to assist business heads of major outsourcers identify reliable, innovative and tech-savvy partners.
Multinationals in India

Information technology has been a promising sector for India, generating revenues both for the domestic as well as the global market. India's IT potential and markets with very high returns have attracted multinationals to grab a share of the pie and cash in on the IT boom. Also, the increase in purchasing power and the rapid business expansion of the small and medium enterprises (SMEs) holds promise for global IT giants who look at a 100 per cent year-on-year growth in their small and medium businesses (SMBs) market in India. In fact, the total IT spend of Indian SMBs is expected to touch US$ 10 billion this year, of which US$ 1.1 billion is expected to be spent on IT services alone.

Also, according to a study by consulting firm Zinnov, India's IT spending is likely to grow between 17.6-24 per cent by 2010 from the current IT spending totalling US$ 17 billion.

Capgemini, Europe's largest consulting and computer services firm is gradually moving its internal support services to India. Intel, the globally renowned chip maker, is looking to invest more than US$ 1 billion in India over the next three years in partnership with Indian and foreign hardware firms to prepare light weight personal computers. Cisco posted over 100 per cent year-on-year growth in its SME business in India in 2007-08. Oracle is expecting over 100 per cent growth in India for its CRM business on the back of increased technology awareness and need for cost-effective customer servicing. Yahoo! Inc and Tata Sons' subsidiary firm Computational Research Laboratories (CRL) have entered into a joint agreement to make available-EKA, a supercomputer (the fourth fastest) in the world- for cloud computing research in India.

Dell, which not only manufactures and sells hardware in India but also has a service and support arm, saw a volume growth of 99 per cent year-on-year in the first quarter of 2008. It had ended the year 2007 with revenues of US$ 638.96 million and expects to touch the billion dollar mark next year. World's leading chip designer firm, ARM, is expanding its India design centre to make it the largest outside Britain. US-based, US$ 1-billion dollar-chip maker, Microchip Technology, will invest US$ 65 million in its India development centre over the next five years.

Domestic Markets

India's domestic market has also become a force to reckon with, as the existing IT infrastructure evolves both in terms of technology and depth of penetration. Global as well as domestic IT companies like IBM, Accenture, HP, TCS, HCL and Wipro have witnessed a remarkable growth in their business.

The domestic information technology business has become far too attractive to ignore. India Inc's demand for IT services and products has bolstered growth in the domestic sector with deal sizes going up remarkably and contracts worth US$ 50 million-100 million up for grabs.

Such growth in the software and services sector has been achieved because of spectacular growths in some segments. For instance, 680,000 notebooks were sold in the first half of 2007-08, registering an increase of 59 per cent.

In the next couple of years, global market intelligence and consulting firm, IDC, sees a higher local demand driven by growth of broadband, expansion of Software-as-a-Service (SaaS), service oriented architecture, virtualisation as also networking projects. The net margins in the domestic market are at about 9-11 per cent which has improved considerably in recent years. Of late IT service providers, MNC's and domestic firms have developed strategies exclusively for the domestic market according to a research by Gartner.
Further, India's homegrown IT mammoths are looking at buying companies abroad. In one of the biggest acquisitions ever, HCL Technologies has proposed to acquire UK-based Axon with a US$ 811-million bid at 650 p per share.

**Growth**

The Indian information technology sector continues to be one of the sunshine sectors of the Indian economy showing rapid growth and promise. Though worldwide IT budgets are expected to increase by 3.3 per cent in 2008, slightly higher than 2007, the Indian firms would report stronger-than-average IT budget increases of around 13 per cent, according to Gartner.

According to NASSCOM, the Indian IT-BPO sector is on track to reach a target of US$ 60 billion in exports and US$ 73-75 billion in overall software and services revenues by 2010. With small and mid-sized businesses driven by the increased use of technology India's information and communication technology market is estimated to grow 20.3 per cent annually to reach US$ 24.3 billion by 2011.

According to the global infotech analyst, International Data Corporation, the Indian IT and ITeS market is estimated to grow at the rate of over 16 per cent to become a US$ 132 billion industry, significantly, the domestic market alone is expected to become over US$ 50 billion, with a CAGR of about 18.4 per cent. Simultaneously, the IT and ITeS exports are estimated to more than double to US$ 78.62 billion by 2012.
Occupation refers to an economic activity which provides means of livelihood for those engaged in it. People engaged in various economic activities are called workers. The whole of working population i.e. the population working in any type of economic activity at the ongoing wage rate, is termed as the workforce. There are various types of economic activities in which people work. We can group them into three major sectors in the economy viz (i) primary (ii) secondary and (iii) tertiary. Primary sector includes agriculture and allied activities such as cultivation, forestry and logging, fisheries poultry and dairy farming etc. Secondary sector activities include manufacturing industry, large and small scale construction etc. The tertiary sector activities include services such as banking and insurance, trade and commerce, transport and communication, real estate, social services etc.

The distribution of total workforce of an economy among the above said various sectors is called occupational structure of that country.

OCCUPATIONAL STRUCTURE AND ECONOMIC DEVELOPMENT

(Trends and mobility between occupations)

Census is the major data source which gives the percentage distribution of workforce among primary, secondary and tertiary sectors. A close look at the data indicates that India’s working populations is concentrated in the agriculture or primary sector. Right from 1901 to 1971, all the census data shows that nearly 72 percent of total workforce was engaged in primary sector activities. After 1971 there has been slow but continuous decline in percentage of workforce depending on agriculture. While the figure for 1981 was approximately 69 percent it further reduced to around 67 percent in 1991 and well about 57 percent in 2004-05. High dependence on agriculture coupled with low productivity reflects India’s under developed character. Needless to say that the industrial and service sector have been overshadowed by the dominance of agriculture. Percentage of workers in secondary sector varied between to 12 percent in 1901 to 13 percent only in 1991. However during the first decade of 21st century percentage of workers in industries has increased. While the figure for 1999-2000 stood at 17 percent approximately, in 2004-05 it was higher at around 19 percent.

Coming to tertiary sector, in 1901 around 16 percent of workforce was engaged in this sector. The figures in percentages for other censuses are as follows: 17 in 1951, 16 in 1961, 17 in 1971, 18 in 1981, 21 in 1991, 23 in 2001 and 24 in 2004-05. (Note that all the percentage figures are rounded up to nearest whole number). The data shows that there has been a slow but continuous increase in the workforce participating in secondary and tertiary sector activities. What does this trend in occupational structure tell?

Infact occupational structure of country has close links with its economic development. Look at the advanced countries like USA, Japan, France, UK etc., In the year 2002- USA had only 2 percent of its workforce in agriculture, 24 percent in industry and 74 percent in services; Japan had 5 percent in agriculture, 31 percent in industry and 64 percent in services; UK had only 1 percent in agriculture 25 percent in industry and 74 percent is services; The corresponding figures for France were 3, 25 and 72 percent respectively. This data confirms to
the view that higher level of economic development is manifested in the higher share of employment in industries and services and lower share in agriculture and other primary activities. During the early stages of development these countries did have larger percentage of workforce in agriculture than that of in industry and service. But with pace of economic development getting faster over time there has been shift in occupational structure from agriculture to higher productive areas i.e. industry and service. Needless to say that productivity in industry and services is higher because of skill requirement and increasing scope of more and new type of job creation. The supply of such workforce comes from the knowledge economy developed over time. Educated and trained population create the human capital of a nation and help industry and services to grow and create more employment opportunities. Higher employment increases national and per capita income. Development of industry also leads to higher productivity in agriculture due to improved technology in cultivation, better raw materials or inputs etc.

Look at the Asian giants such as Korean Republic, China, Indonesia, Malaysia etc. Their pace of development in recent past have been phenomenal. In terms of per capita income or other indicators of development these economies may be categorized as fast developing countries and fast catching up with the developed economies of USA, UK Japan or France. This is reflected in their occupational structure as well. The shares of employment in agriculture, industry and services in these economies for the year 2000 i.e. beginning of new millennium was as follows :

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>AGRICULTURE</th>
<th>INDUSTRY</th>
<th>SERVICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korean Republic</td>
<td>10</td>
<td>28</td>
<td>62</td>
</tr>
<tr>
<td>Malaysia</td>
<td>18</td>
<td>32</td>
<td>50</td>
</tr>
<tr>
<td>China</td>
<td>47</td>
<td>22</td>
<td>31</td>
</tr>
<tr>
<td>Indonesia</td>
<td>44</td>
<td>17</td>
<td>39</td>
</tr>
</tbody>
</table>

Now take India which is comparatively having a slower pace development. As already told above in the first decade of new millennium India has around 57 percent of workforce in agriculture as compared to 47 in China which has higher level of development than India and 2 percent in USA which is highly developed. The figure for industry is 17 percent in India, 22 percent in China and 24 percent in USA and in services the figures are 22 percent in India, 31 percent in China and 74 percent in USA. This amply indicates the levels of development in comparative terms.

But we can also say that India promises higher economic development in future because the share in employment in secondary and tertiary sector has been increasing even though slowly since the last century. This has led to increase in productivity per worker from Rs.12, 630, in 1972-73 to Rs.29, 611 in 2001-02 estimated at 1993-94 price level. So the gross domestic product (GDP) has been increasing with the shift in occupational structure GDP increased from. Rs.296, 909 crores to Rs.12,67 945 crores during the same period. The economy grew at 5 percent and 8 percent in these years respectively. Hence shift in occupational structure from agriculture towards industry and services indicated higher economic growth for India. Also with slow decline in share in employment in agriculture, the food production of India has not suffered, infact food production has increased from 51 million tones in 1950-51 to about 219 million tones in 2007-08. Accordingly the per capita availability of food grains has also increased.
One major concern for India in this experience has been the rapid increase in population. Very fast growth of population in the last century particularly after independence has caused growing unemployment and poverty and has slowed down the pace of shift in occupational structure from agriculture to industry and services i.e. mobility of workers from agriculture to industry and services has been taking place slowly.

**SOCIAL MOBILITY IN INDIA**

Social mobility refers to intergenerational movement (father to son) among various social class. Here we have only considered the social classes based on occupation. The major reference for this study is National Election Survey (NES) 1996 conducted by Center of Study of Developing Societies. (CSDS)

The survey divides the occupations into four groups which are further classified into eightfold schema with each group having two schema each as follows

a) The first group is the “salaried class” which is divided into the following
   (i) Higher salariat consisting of executives, professionals and white collar employees.
   (ii) Low salariat consisting of class IV employees

b) The second group is the “business class” divided into the following two schema:
   (i) Business comprising large and small and business
   (ii) Petty business comprising of small store owners and roadside businesses.

c) The third group is the “labour class” divided into two the following schema:
   (i) Skilled and semi skilled manual labour which includes mechanics, electricians, tailors, weavers, carpenters, craftsmen and rickshaw pullers.
   (ii) Unskilled manual labour excluding those in agricultural sector.

d) Finally the fourth group is the “farmer class” as follows
   (i) Farmers which include owner cultivators and tenant cultivators with more than 5 acres of land.
   (ii) Low agriculturalists consisting of owner and tenant cultivators with less than 5 acres of land, dairy and poultry farmers, sharecroppers, fishermen and shepherds.

**Results of NES Survey**

The NES survey found that the single largest class both among the fathers and among sons was the lower agricultural class followed by farmers and business groups. The salaried class was slightly larger than the labour class (See Table 1).

**Table 1**

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Class/Schema</th>
<th>Fathers' Class</th>
<th>Sons' Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Higher salariat</td>
<td>8.1</td>
<td>10.4</td>
</tr>
<tr>
<td>2.</td>
<td>Lower Salariat</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td>3.</td>
<td>Business</td>
<td>9.0</td>
<td>15.2</td>
</tr>
</tbody>
</table>
The data suggests that India has been experiencing a different type of economic development as compared to the western countries. It was observed that the farming sector in India has declined in size and there have been small gains in each and every other classes i.e. salariat, business and labour whereas in countries such as in Britain it was observed that during the period of industrialization in nineteenth century there was significant shift of working population from agriculture to industry, particularly into the large scale manufacturing industry. As we have seen in the last section that even if working population in India has increased in industries and service sector and decreased marginally in agricultural sector, still in terms of absolute number as well as percentage it comes out to be having largest size i.e. million and 57 percent of total workforce in 2004-5 respectively. So India can still be counted as primary producing developing economy. But looking at the sizeable increase is size of salariat, class by more than that of the labor class, India gives a very deceptive look of a developed nation. As given in table 1 fathers generation show higher percentage of workforce in farmer and lower agricultural schema than the sons generation where as in all other class the workforce in sons generation was higher than that of the fathers.

**Inflow mobility:**

The NES, 1996 then throws light on intergenerational movement between classes, more specifically the upward class mobility of people from the lower social class origion. Technically this is called inflow mobility which is given in table 2. Inflow mobility was possible because of differences in class distribution of fathers and that of sons implying that there is "room at the top" to climb up.

Table 2 shows the inflow mobility of sons i.e. where from people currently engaged in different occupations came.
Table 2:
Sons' inflow mobility (percentages)

<table>
<thead>
<tr>
<th>Fathers Class</th>
<th>Sons Class</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HS</td>
</tr>
<tr>
<td>HS</td>
<td>37.0</td>
</tr>
<tr>
<td>LS</td>
<td>3.5</td>
</tr>
<tr>
<td>B</td>
<td>7.7</td>
</tr>
<tr>
<td>PB</td>
<td>4.8</td>
</tr>
<tr>
<td>SSL</td>
<td>6.4</td>
</tr>
<tr>
<td>UL</td>
<td>2.7</td>
</tr>
<tr>
<td>F</td>
<td>14.9</td>
</tr>
<tr>
<td>LA</td>
<td>23.1</td>
</tr>
</tbody>
</table>

HS = High Salariat, LS = Low Salariat, B = Business, PB = Petty Business, SSL = Skilled and Semi skilled Labour, UL = Unskilled Labour, F = Farmers, LA = Lower Agriculture

The data gives the idea about whether classes are largely self-recruiting or built out of influx from other classes. It is clear from table 2 that both farmers and lower agricultural classes are self-recruiting with over 90 percent of people drawn from the same class background where there has been very little recruitment into one farming class from the other. This happens because land tends to be passed down from father to son under law of inheritance. On the other hand, highest level of inflow mobility has taken place into the salariat classes with more than half the current members coming from other class origin and wide diversity of backgrounds. The maximum influx has taken place from lower agricultural class into the salariat classes.

Outflow mobility

The other side of social mobility is the outflow mobility which gives the destinations of people who came from the given class origins as given in table 3.

Table 3
Outflow mobility of Sons in 1996

<table>
<thead>
<tr>
<th>Fathers Class</th>
<th>Sons Class</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HS</td>
</tr>
<tr>
<td>HS</td>
<td>57.7</td>
</tr>
<tr>
<td>LS</td>
<td>13.0</td>
</tr>
<tr>
<td>B</td>
<td>14.4</td>
</tr>
<tr>
<td>PB</td>
<td>11.7</td>
</tr>
<tr>
<td>SSL</td>
<td>7.0</td>
</tr>
<tr>
<td>UL</td>
<td>2.4</td>
</tr>
<tr>
<td>F</td>
<td>9.4</td>
</tr>
<tr>
<td>LA</td>
<td>5.2</td>
</tr>
<tr>
<td>T</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Source: Same as table-1 and 2.
Table 3 shows that in case of lower agricultural class, only 5 percent experienced a long range upward mobility into higher salariat whereas 68 percent remained in the original class i.e. itself. The diagonal elements in table 3 represent the people who have followed their fathers' foot steps. For example, 57.7 percent of people who were born into higher salariat families have themselves become higher salariat as well while 73.7 percent of people who were born into farmers families have themselves become farmers and so on.

The figures down the columns in table 3 gives the idea of inequality among classes. So while 57.7 percent of sons from high salariat class could become high salariat themselves only 2.4 percent of sons from unskilled labour class could do so. This shows high degree of class inequality. The chances of sons from business, lower salariat and petty business families to reach higher salariat class are more brighter than unskilled labour families because of their relatively better access to financial resources and opportunities available. In short, while inflow mobility shows recruitment into salariat from below; outflow mobility shows inequality in reaching to the salariat class.

The NES, 1996 revealed that 67 percent of the total respondents have remained in the same class as their fathers, 19 percent have been upwardly mobile, 6.6 percent have been downwardly mobile 7.1 percent have been mobile horizontally showing similar status after change of occupation e.g. movement from lower agricultural class to unskilled labour class. Since the percentage of people experiencing upward mobility was higher than that of downward mobility, we can say that India has been on the path of economic progress even though slowly.

Link between class and caste:

Table 4 gives the link between class and caste.

<table>
<thead>
<tr>
<th>Caste/Community</th>
<th>HS</th>
<th>LS</th>
<th>B</th>
<th>PB</th>
<th>SSL</th>
<th>UL</th>
<th>F</th>
<th>LA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper</td>
<td>20.4</td>
<td>4.1</td>
<td>14.2</td>
<td>6.2</td>
<td>11.1</td>
<td>4.7</td>
<td>17.8</td>
<td>21.5</td>
</tr>
<tr>
<td>OBC</td>
<td>7.1</td>
<td>2.4</td>
<td>5.0</td>
<td>5.2</td>
<td>16.9</td>
<td>11.1</td>
<td>12.6</td>
<td>39.6</td>
</tr>
<tr>
<td>Dalit</td>
<td>6.1</td>
<td>4.8</td>
<td>2.2</td>
<td>3.1</td>
<td>16.3</td>
<td>24.8</td>
<td>4.1</td>
<td>38.6</td>
</tr>
<tr>
<td>Adivasi</td>
<td>4.4</td>
<td>2.6</td>
<td>1.5</td>
<td>2.6</td>
<td>7.2</td>
<td>16.9</td>
<td>19.0</td>
<td>45.9</td>
</tr>
<tr>
<td>Muslim</td>
<td>8.2</td>
<td>2.5</td>
<td>8.4</td>
<td>13.9</td>
<td>22.4</td>
<td>12.3</td>
<td>6.2</td>
<td>26.0</td>
</tr>
<tr>
<td>Others</td>
<td>17.8</td>
<td>1.7</td>
<td>11.9</td>
<td>1.7</td>
<td>22.9</td>
<td>10.2</td>
<td>16.9</td>
<td>16.9</td>
</tr>
<tr>
<td>All</td>
<td>10.4</td>
<td>3.3</td>
<td>7.0</td>
<td>5.6</td>
<td>15.2</td>
<td>12.7</td>
<td>12.3</td>
<td>33.5</td>
</tr>
</tbody>
</table>

Source: Same as table 1 and 2 and 3

Table 4 shows the association between sons class and caste/community. It is similar to outflow mobility given in table 3. One major finding given by table 4 is that there is a strong association between caste/community and class destinations. The caste/community considered here are upper caste, other backward class (OBC), dalits, adivasis, muslim and others. The upper castes show relatively high propensity, i.e. 20.4 percent, to be in high salariat which is more than the all caste percentage of 10.4. This is followed by farmers and business where the percentages of upper castes are above the respective average figures for all castes. Conversely and also most expectedly, percentages of upper castes in skilled and unskilled labour and lower agriculturalists are lower than the respective all caste figures.
Quite opposite is the case with Dalits and adivasis. They are highly concentrated in unskilled labour class and lower agriculturalists class. Of course Dalits are significantly seen in lower salariat class as well. Similarly adivasis also show higher propensity to be in farmers class because of their rural geographical distribution which has nothing to do with higher status.

Finally muslim concentration is seen in both the business classes as well as both skilled and unskilled labour class.