INDIA'S ECONOMIC DEVELOPMENT-NATIONAL AND REGIONAL

STUDY MATERIAL

V SEMESTER

B.A ECONOMICS

CORE COURSE

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MODULE I

DEVELOPMENT POLICIES AND EXPERIENCE (1947-1990)

INDIA UNDER COLONIAL RULE

Colonialism refers to a system of political and social relations between two countries, of which one is the ruler and the other is its colony. The ruling country not only has political control over the colony, but it also determines the economic policies of the subjugated country. Thus, (1) The people living in a colony cannot take independent decisions in respect of utilisation of the country's resources, development of agriculture and industries, trade relations with foreign countries, taxation structure and such other important economic matters. (2) The Slate economic policies of colonics generally conform to the interests of the rulers which inevitably arrests their development process. (3) In a colonial set-up, the economy of the colony over a period of time gets integrated with the economy of the ruling country. In fact, in course of time the two economics become complementary to each other.

The history of the colonies of Western powers bears testimony to this fact. The Western countries, either forcibly or by pursuing the policy of deceit, appropriated the economic surplus of colonies or used it for their industrialisation. They also created markets for their industrial products in the countries of their domination by pursuing policies which destroyed whatever little industries existed in these countries. Colonies were also systematically transformed into the suppliers of raw materials to the metropolitan country. Because of these economic relations between the metropolitan countries of the West and the colonies in Asia. Africa and Latin America, development took place on a scale which had no precedence in history, in countries falling in the former category, while those in the latter suffered under development. This process went on for about two centuries beginning with the industrial revolution in England.

BRITISH RULE AND THE EXPLOITATION OF INDIA

After the Battle of Plassey, the British East India Company had succeeded in establishing its rule over the major part of India and with it began the period of colonial exploitation of the country. In this period there was massive drain of wealth from India to England and it resulted in pauperization of this country. Even the transfer of power from the East India Company to the British Crown did not materially alter the situation. The colonial exploitation had continued; only its form had changed.

Britain had exploited India over a period of two centuries of its colonial rule, but the form of exploitation was tot the same throughout the period. On the basis of the form of colonial exploitation, economic historians have divided the whole period into three phases: (i) The period*of merchant capital* — starling from the Battle of Plassey and continuing till the end of eighteenth century. ii) *The period of industrial capital* — starting from the beginning of nineteenth century and continuing till the end of this century, and (NO *The period of finance capital* — starting from the late nineteenth century and continuing till the Independence.

Merchant Capital and the Colonial Exploitation

When the East India Company captured power in 1757. the Indian economy was basically feudal. Jawaharlal Nehru and Rajni Palme Dutt. however, believed that the seeds of capitalist development existed in the Indian economy, and had there been no British intervention in India, in course of time this country might have developed into a modem capitalist nation. D R. Gadgil and KS. Shelvankar did not see any such possibility. Anyway, the intervention of Britain in India did a lot of harm to this country. The British merchant capital made a frontal attack on the Indian capitalist class and with it. Whatever limited possibilities of capitalist development existed in the Indian economy, were destroyed. In the early period of its rule, the East India Company adopted the following methods of exploitation:

First of all the East India Company indulged in direct plunder under the guise of trade In 1600 when the East India Company got its first Charter, its primary objective was to earn profits from overseas trade. In the beginning when the Company started its trade with India, there was hardly anything which Britain could offer to this country in exchange of goods it purchased. Therefore, the Company was given an authorization to export gold and silver bullion and (he coins of these metals worth £30.000 per annum. The merchant adventurers of the Hast India Company did not like the idea of paying gold and silver for Indian goods, but in the early years they were in no position to indulge in unabashed plunder. The position, however, changed after the Battle of Plassey. The East India Company had captured political power which enabled it to exercise pressure to tilt the balance of exchange in its favour and secure maximum goods for minimum payment. R. Palme Dutt commenting upon this situation has written. 'The margin between trade and plunder, from the outset never very sharply drawn (the original adventurers' often combined trade with piracy), began to grow conspicuously thin. The merchant, in any case, always favourably placed in relation to the individual producer, whether weaver or peasant, to dictate terms favourable to himself, was now able to throw the sword into the scales to secure a bargain which abandoned all p/etence of equality of exchange."*

Secondly, *under the East India Company the land revenue was an instrument of plundering the peasants.* When Cornwall it introduced the Permanent Settlement in 1793. the land revenue was fixed at £ 34.00.000. Strangely, the land revenue collections were not meant to be spent on administration or public welfare. Efforts were made to generate surplus in which the Company Administration did succeed This surplus was treated as the profit of the Company and repatriated to England. In the first six years of its administration, the East India Company had a net surplus of £ 40.37.000 from Bengal alone.

Thirdly, *the corrupt and unscrupulous officers of the East India Company adopted all possible means to make large fortunes.* For instance. Clive himself had nothing when he came to India, but in his short stay, he accumulated a large amount of wealth. He returned home with a fortune estimated at two-and-a-half lakh of pounds. In addition, he had acquired an Indian estate which brought him an annual income of £ 27.000. Surprisingly, he saw nothing illegitimate in doing so and boasted that fortunes of £ 1.00.000 were obtained by him just in the first two years.

Lastly, *after acquiring the Diwani rights for the Civil administration of Bengal, Hihar and Orissa, the East India Company directly plundered the peasants of these States by continuously raising the land revenue.* This policy, however, had serious repercussions on Indian agriculture and ruined the farmers completely. This shortsighted policy undoubtedly generated unexpected surplus. But the exploitation of peasants, resulting in their ruination, destroyed their capacity to pay increasing land revenue. Cornwallis, in view of these developments, thought of working out an arrangement which would serve long-term interests of the British in India better than direct plunder. He introduced the zamindari system under the Permanent Settlement in 1793 ensuring a fixed annual land revenue of £34.00.000. This land tenure system turned out to be quite exploitative. Under the Permanent Settlement, revenue farmers got the ownership of the land and thus developed vested interests in the Hast India Company's rule.

There were serious repercussions of the exploitation of Indian people by the East India Company, its officials and other British people on the economy of this country. According to some well-known observers, the economy of the country was completely shattered within a few years of the Company's rule. The process of exploitation on an unheard scale caused so much devastation that even the prosperous regions were transformed into jungles or barren land. Furthermore, unabashed exploitation of the peasantry madc'liuiun villaiges vulnerable to famines.

Industrial Capital and the Colonial Exploitation

In the agie of merchant capital, the drain of capital from hdia to Emgland made a significant contribution to the Indusrial Resolution in the latter. The success of the Industial Revolution, however, required a change in the mode of exploitation. In the new phase, the efforts were directed towards developing India as a market for the British industries. In this period, the important forms of exploitation were as follows: ,**Export of machine-made goods to India.** In the early period it was not easy for the textile industry of England to compete with the indigenous producers. British products were both inferior and costly, and thus failed to penetrate Indian markets. It was, therefore, considered imperative by the British to destroy Indian textile industry in a systematic manner. Market for British goods could not be created in any other manner. In those days, in spite of all the set-back Indian textile industry had received, there was great demand for Indian cloth in England. In order to protect the rising textile industry in England from Indian competition, the British Government levied a heavy customs duty of *78* per cent on imports of Indian product. The British goods imported in India were, however, kept duty free. This partisan implementation of free trade policy served two purposes. On the one hand it restricted the imports of Indian cotton textiles in England, and on the other, the exports of British goods to India increased. Precisely, the same thing had happened in respect of industrial capital.

1. Development of jute industry and plantations.

The British capitalists had little interest in establishing manufacturing industries in this country. The very few industries which they developed in India were such that could not be established elsewhere for geographical reasons. The most prominent among these industries was jute industry. The British capitalists who established jute mills in Bengal had a virtual monopoly over the supplies of jute products in international markets, and they earned huge profits. Apart from jute industry, the main interest of the British capitalists was in tea, coffee and indigo plantations. The plantation industry provided scope for limitless exploitation of the Indian workers.

3. Revenue and expenditure policies of the British imperialists. For retaining political power, the British rulers always considered it necessary to maintain a big army. In the nineteenth century, the expenditure on army was the largest single item, which accounted for roughly one-third of the total government expenditure. In addition to this, the expenditure on the British army stationed in India had to be borne by the Indian government. Pensions of army officers, expenditure on the office of the Secretary of State for India, salaries of the members of the Indian Council, expenditure on the India Office, and payments to the Bank of England for debt management were some other expenditures which had little concern with India. Indeed. India had to pay even for the imperialist pursuits of Britain in other parts of the world.

The exploitation of India by the British industrial capital in the nineteenth century brought about a drastic- change in the nature of the Indian economy. The isolation of self-sufficient villages ended and with it the old form of economy disintegrated. In urban areas, the process of de- industrialisation was more or less complete. The earlier balance which existed between agriculture and industry in this country during the pre-British period was also lost.

Finance Capital and the Colonial Exploitation

In the mid-nineteenth century, the period of massive investments of the British capital in India **began.** It is pertinent to mention that most of this capital was not brought from England. It was accumulated in India by using all kinds of unscrupulous methods by the British. It was rather unfortunate for this country that the capital plundered from the people was invested as the British capital. The public debt system was another crafty device which the British employed in India to raise funds.

The British finance capital found its entry into the following main sectors:

1. **The State sector.** As already pointed out. the British Government unscrupulously charged India for expenditures which were not even remotely concerned with the people of this country. All these expenditures were arbitrarily treated as the loans granted to India. Making his observations on this clever device. L.H. Jenks wrote. "The burdens that it was found convenient to charge to India seems preposterous. The cost of the Mutiny, the price of the transfer of the Company's rights to the Crown, the expenses of simultaneous wars in China and Abyssinia, every government item in London that remotely related to India down to the fees of the char-woman in the Indian Office and expenses of ships that sailed out but did not participate in hostilities and the cost of Indian Regiments for six months training at home before they sailed — all were charged to the account of unrepresented ryot... It is small wonder that the Indian revenue swelled from £33 million to £52 million a year during the first thirteen years of Crown administration, and that deficit accumulated from 1866 to 1870 amounting to £11.5 million. A Home debt of £3.00.00.000 was brought into existence between 1857 and I860 and steadily added to."

2. **Railways**. The British capital was imported for the construction of railways, and the burden of interest that was to be paid on it was imposed on Indian tax payers. The capital goods required for the development of railways were obtained from England, and thus, the positive role which railways could play in the industrialisation of the country was denied to them. In the USA. the construction of railways had helped in creating huge demand for iron ore. coal, capital equipment, etc. This gave an impetus to the development of these industries. This could have happened in India too provided the policy of importing everything from England for the development of railways in India was abandoned in favour of a policy of relying on internal resources. The development of railways with the State aid and guarantees encouraged the most extravagant and uneconomic expenditure. From 1849 to 1869, the construction of railways was done under old guarantee system, which ensured a return of 4.5 to 5 per cent to railway companies on whatever capital was expended. In 1882. the new guarantee system for the development of railway construction was introduced. Under the system, the guaranteed rate of interest was brought down to 3.5 per cent, but even this could not check the extravagance of the railway companies. Due to this approach the railway complies, instead of making any profit, incurred heavy losses.

3. **Investment in plantations**. The British capitalists had particular interest in tea. coffee and rubber plantations. According to an estimate of Sir George Paish, total investments in various plantations in 1909-10 amounted to £ 24.2 million.[4] Investment on this scale in the plantations is not at all surprising. Due to geographical factors, tea. coffee, and rubber plantations could not be developed in England. India's climate and other geographical factors were particularly favourable for their development. Moreover, the

cheap labour was an additional factor which induced ihc British capitalists to make investments in this sector. For a long time, Indian tea enjoyed virtual monopoly in international markets, and thus, the tea plantations owners made huge profits.

4. Other sectors. Besides railways and plantations, the British private capital found its way into tramways, mining, oil, banking and finance, and industries such as rubber, match box. paper, engineering, sugar and cotton textiles. But from the estimates of George Paish, one learns that the total investment in sectors other than government, transport, plantations and finance was just 3 per cent of the British capital invested in India.

From the study of the sectoral distribution of the British capital in India, it is clear that the investment of capital by the British in this country did not by any means imply development of modern industry. 97 per cent of the capital invested in India in the early years of the twentieth century was devoted to purposes auxiliary to the commercial penetration of India, and was in no way connected with its industrialisation.

India and 11th Five Year Plan

India has recorded an average annual economic growth of 8 percent during the 11th five year plan (2007-2012) compared to the targeted 9 percent. The shortfall in achievement of (various growth targets) can be attributed both to internal and external factors viz. global slowdown, fluctuations in international prices, strong inflationary pressures and negative growth in agriculture due to drought like situation. India's annual average economic growth rate remained at 8 per cent compared to the targeted 9 per cent for the 11th Plan. Besides the farm sector grew at an average rate of 3.7 per cent as against 4 per cent targeted in the five year policy period.

As against an annual average growth of 10-11 per cent envisaged for the industry during the period, the actual annual average growth stood at 7.2 per cent during the plan period. Services sector grew at an average rate of 9.7 per cent per annum compared to the targeted 9-11 per cent in the five year period, he said in the reply. In its advance estimates, Central Statistics Office (CSO) has pegged the economic growth in the current fiscal at 4.9 per cent which would be slightly higher than 4.5 per cent achieved in 2011-12.

The Approach to the 12th Five Year Plan (2012-17) had envisaged 9 per cent annual average economic growth rate which was later fixed at 8 per cent by the National Development Council (NDC) in December 2012 while approving the five year policy. These growth targets for the 12th Plan would be reassessed in the mid-term appraisal of the five year policy in 2014-15.

In the backdrop of lower economic growth rates of 4.5 per cent in first year of 12th Plan (2012-13) and 4.9 per cent in second year (2013-14), the annual average economic growth rate target for the entire five year policy could be revised downwards, it is felt.

MODULE II

ECONOMIC REFORMS SINCE 1991

THE ORIGIN OF ECONOMIC CRISIS IN THE EARLY 1990s

The problems of the economy in this country which assumed crisis proportions in 1991 did not develop suddenly. The origin of the crisis is directly attributable to the cavalier macro management of the economy during the 1980s which led to large and persistent macroeconomic imbalances. The strategy of development, notwithstanding its limitations, cannot be blamed for this crisis. The widening gap between the revenue and expenditure of the government resulted in growing fiscal deficits which had to be met by borrowing at home. Further, the steadily growing difference between the income and expenditure of the economy as a whole resulted in large current account deficits in the balance of payments which were financed by borrowing from abroad. According to Deepak Nayyar, "The internal imbalance in the fiscal situation and the external imbalance in the payments situation were closely related, through the absence of prudence In the macro management of the economy”. This was, however, not appreciated particularly during the 1980s and in an attempt to live beyond means, the economy was pushed into a deep economic crisis. The Gulf crisis In the late 1990 sharply accentuated macro economic problems. Thar was also political instability in the country at this juncture All these developments together eroded international confidence in the Indian economy and, as a result this country's credit rating in the international capital market declined steeply. However, it has to be recognised that the problems of the economy did not assume ens is proportions abruptly. These problems, m (act were very much there for years destroying the capacity of the economy to cope with any internal or external shocks In the 1970s, the Indian economy was strong enough to bear much larger and more sustained oil shocks. But by 1990 the situation had changed so much that the minor oil shock made disproportionately large impact on the economy and a macro economic crisis erupted in the form of: (1) Unsustainable fiscal deficit; (2) Unsustainable current account deficit; and (3) AcceleraUng inflation

The Fiscal Imbalance

The fiscal crisis in 1990 was not a coincidence. The fiscal situation had deteriorated throughout the 1980s due to growing burden of non-development expenditure. The gross fiscal deficit of the Central government which was 5.1 per cent of GDP in 1981-82 rose to 7.8 per cent m 1990-91. Since this fiscal deficit had to be met by recourse to borrowings, the internal debt of the Central government increased rapidly, rising from 33.3 per cent of GDP at the end of 1980-81 to 49.7 per cent of GDP at the end of 1990- 91. This natural ly made burden of servicing the debt onerous. Interest payments which were 2 per cent of GDP and 10 per cent of total Central government expenditure in 1980- 81, rose to 3.8 per cent of GDP and 22 per cent of total Central government expenditure in 1990-91. How alarming this fiscal situation was can be realized from the fact that in 1990-91 interest payments had eaten up 39.1 per cent of the total revenue collections of the Central government. This obviously was an unsustainable situation. The danger of the government falling into debt-trap was real The government thus could not persist with its cavalier policy of growing reliance on borrowings to meet steadily increasing fiscal deficit to which unchecked growth of non-plan revenue expenditure was the major contributing factor. Fragile Balance of Payments Situation

The balance of payments situation was highly precarious in 1991, but this was not unexpected. The current account deficit which was $ 2.1 billion or 1.35 per cent of GDP in 1980-81 rose to $ 9.7 billion or 3.69 per cent of GDP in 1990-91. These continuously growing deficits had to be financed by borrowing from abroad and as a consequence India's external debt rose from 12 per cent of GDP at the end of 1980-81 to 23 per cent of GDP at the end of 1990- 91. This steadily growing external debt led to an increase in debt service burden from 10 per cent of current account receipts and 15 per cent of export earnings in 1980-81 to 22 per cent of current account receipts and 30 per cent of export earnings in 1990-91. These mounting strains during the 1980s stretched to the breaking point in 1991 due to the Gulf crisis. The balance of payments position was on the brink of disaster as in mid-January 1991 and again in late June 1991 the level of foreign exchange reserves dropped to levels which Were not sufficient to finance imports of even ten days.

Mounting Inflationary Pressures

The price situation was apparently not alarming during the second half of the 1980s as the average rate of inflation was 6.7 per cent per annum in terms of the wholesale price index. However, the rate of inflation rose to 10.3 per cent in 1990-91. In terms of the consumer price index, the rate of inflation climbed to 11.2 per cent per annum which was certainly a cause for concern. However, the most disquieting feature of this inflationary situation has that the prices of food rose substantially in spite of three good monsoons in a row. According to Deepak Nayyar, these inflationary pressures in the economy did not surface out of the blue. The build-up was attributable to the large deficits, which were inevitably associated with a monetization of budget deficits and an excessive growth of money supply. This liquidity overhang, in conjunction with real disproportionalities and underlying supply demand imbalances was bound to fuel inflation”

ECONOMIC REFORMS IN INDIA

It is generally agreed in studies on Indian economy that the process of economic reforms was initiated in India by the government of P.V. Narasimha Rao in 1991 with the announcement of a number of measures for liberalizing the economy by the then Finance Minister Manmohan Singh. However, Arvind Panagariya has argued that the process of economic reforms was initiated during the second half of 1980s under the stewardship of Prime Minister Rajiv Gandhi. In support of his contention he quotes from the Kingsley Martin Memorial Lecture, delivered m Cambridge in 1987 by I.G. Patel who approvingly described the reforms introduced by Rajiv Gandhi in the preceding one and a half years as the 'New Economic Policy'. This new economic policy had moved the Indian economy toward increased outward and inward competition by the end of 1980s. Panaganya emphasises the shift in the Industrial Policy Statement 1990, towards large-scale liberalisation of industrial policy. This policy provided compelling evidence that internal and external liberalisation had gained considerable political acceptance at least a year before the balance of payments crisis. However, not being able to predict how the electorate might react, the politicians were still afraid to announce their conversion openly. "But they were sufficiently convinced of the need for change to move forward to open the markets in larger steps than had been the case in the past". In his own study, Panaganya prefers to term the period since 1988 as the phase of economic reform. However, he himself admits that the 1991 -92 liberalization was substantially at variance from the piecemeal measures preceding it.

The process of economic reforms undertaken by the P. V. Sarasimha Rao government consisted of distinct strands — macroeconomic stabilisation and structural reforms. While stabilisation deals with demand management, structural reforms deal with sectoral adjustments designed to tackle the problems on the supply side of the economy.

MACROECONOMIC STABILISATION

Macroeconomic stabilisation (often called Just stabilisation) Involves returning to low and stable inflation and *a* sustainable fiscal and balance of payments position. Stabilisation is necessary to overcome a crisis but it assumes a special importance if structural reforms are also introduced together with stabilisation. This is because structural reforms often add to macroeconomic pressures. For example, in the short run, trade liberalisation may increase deficits in the balance of payments and financial sector refoims may worsen fiscal position by raising the cost of public borrowing Therefore, stabilisation must accompany structural reforms ami stabilisation policies have to be bold and effective, otherwise extra macroeconomic strains generated in the reforms process can disrupt the latter completely. Vijay Joshi and I.M.D. Little have argued, "In the longer run. structural reform is as helpful for stabilisation as stabilisation is for structural reform. In the absence of reform, losses of public enterprises troubled continue to burden the budget; trade restrictions would hamper the growth of exports; and compulsory government capture of private savings would erode fiscal discipline. '

The macroeconomic stabilisation programme adopted by the government consisted of the following measures:

1. Control of inflation;
2. Fiscal correction; and
3. Improving the balance of payments position.

Control of Inflation

The rate of inflation in 1990-91 was above 10 per cent per annum. This could be brought down on the one hand by introducing fiscal and monetary discipline in the economy and on the other by improving output and supply position. It seems that the government's achievements are modest on both the fronts. accretion of foreign exchange reserves which were not sterilized. This naturally fuelled inflation and the wholesale price index rose by 13.7 per cent. In 1992-93, however, agricultural growth was satisfactory and industrial production also increased though rather at a modest rate. As a result net national product rose by 5.0 per cent. On the demand side, the government followed a cautious approach and thus the supply of money (M,) rose by only 14.8 per cent. The fiscal deficit of the Central government was also brought down to 5.3 per cent of GDP. These disinflationary measures did make some impact on the price situation and the rate of inflation declined to around 7.0 per cent at the beginning of 1993. However, even in 1992-93, the wholesale price index rose by 10.1 per cent which indicates that respite from inflation was only for a very short period. In the next two years -1993-94 and 1994-95, it seems that the Central government did not attempt to enforce much fiscal and monetary discipline. The fiscal deficit thus rose to 7.0 per cent of GDP in 1993-94 and remained as much as 5.7 per cent of GDP in 1994-95. Money supply (M,) growth accelerated to 18.4 per cent in 1993-94 on account of sharp increase in the amount of both demand deposits and currency. This situation did not change in 1994-95 and as a consequence, the supply of money increased at the rate of 22.4 per cent per annum. These facts clearly reflect casualness in the fiscal and monetary policies of the government. Under the circumstances, the inflation rate rose to 12.6 per cent in 1994-95.

The situation, however, changed in 1995-96 due to moderated money supply growth The inflation came down sharply and in January 1996 was running at a rate of around5 per cent. This was mainly the result of slower monetary growth, faster growth of output, a freeze on fuel prices and non-revision of administered prices despite cost increases. During 1996-97 the expansion of broad money (M3) by 16.2 per cent was marginally above the target of 15.5 - 16.0 per cent stipulated for the year. The fuel prices also remained frozen on account of political considerations. Hence, the average annual inflation rate remained at a modest level of 4.6 per cent. In 1997-98, the supply of M3 increased by 18.0 per cent.

Fuel prices rose by around 14.0 per cent. However, prices of food articles recorded only a modest increase of 3.0 per cent. As a result, the inflation rate remained at 4.4 per cent.

During the decade 2000-01 to 2009-10, the years of relatively high average annual inflation, above 5.5 per cent, were the years of 2000-01, 2004-05 and 2008-09. All these were years of high fuel prices. The year 2004-05, however, also witnessed high inflation in manufactured products because of high growth in the GDP in this sector leading to high demand and high prices of raw materials. The overall annual inflation rate in this year was 6.5 per cent which fell to 4.4 per cent in 2005-06 and stood at 5.4 per cent in 2006- 07 and 4.7 per cent in 2007-08. However, inflationary pressures started building up towards the last quarter of 2007-08 and the inflation rate rose to 8.02 per cent in March 2008. As on August 9, 2008 the inflation rate touched the high level of 12.8 per cent. The second half of the year 2008-09 witnessed conditions of slowdown in the economy consequent upon recessionary conditions in the world economy. As a result, there was a drastic reduction in the inflation rate and it dropped to just 0.18 per cent in the week ended April 4, 2009. However, for the year as a whole, the average annual inflation rate was as high as 8.3 per cent. The year 2009-10 started with a low headline WPI inflation of 1.3 per cent in April 2009, which moved into a negative zone during June to August 2009. However, since September 2009 prices started rising sharply due to rise in prices of primary articles, particularly food items, the headline WPI inflation reached 10.23 per cent in March 2010. Overall average inflation from April-December 2010 at 9.4 per cent was the highest recorded in the last ten years. In terms of the consumer price index for industrial workers (CPI-IW), inflation remained in double digits from July 2009 to July 2010.7 High inflationary conditions arc a serious cause of concern and to tackle this problem, the Reserve Bank of India has resorted to an increase in repo rate and reverse repo rate by as many as nine times during the period March 2010 to May 2011. On May 3, 2011, repo rate was raised to 7.25 per cent and reverse repo rate to 6.25 per cent.

Fiscal Adjustment

According to a widely held opinion in government circles, fiscal adjustment is necessary for dealing with the twin problems of high domestic inflation and large deficits in the balance of payments. Fiscal deficit of the Central government was less than 4 per cent of GDP at the beginning of the 1970s. It, however, rose to about 5.1 per cent of GDP by the beginning of the 1980s and was as large as 7.8 per cent of GDP in 1990-91. The factor which contributed most to the growing fiscal deficit was sharp deterioration of the balance on revenue account. In 1970-71, the government had a surplus on revenue account. The situation drastically changed during the 1980s, as by 1985-86 there was a revenue deficit of about 2.1 per cent of GDP which rose to 3.3 per cent in 1990-91. The government having recognized that such high levels of fiscal deficits, both overall and on revenue account were not sustainable, committed itself to a policy of fiscal adjustment.

The Central government initiated a programme of fiscal adjustment under which its fiscal deficit which was around 7.8 per cent of GDP in 1990-91, was reduced to 5.6 per cent in 1991-92 and stood at 5.3 per cent in 1992-93. The Central government also announced its fiscal adjustment programme for the medium term according to which its fiscal deficit was expected to be brought down to about 3 to 4 per cent by the mid 1990s. However, the Central government found it difficult to realize this goal. The fiscal situation in fact deteriorated in 1993-94 and the fiscal deficit of the Central government once again rose to 7.0 per cent of GDP. After this, there was a decline in fiscal deficit for four years but in 1998-99, the fiscal deficit again rose to 6.5 per cent of GDP. This was followed by a reduction in fiscal deficit. The government adopted the FRBM (Fiscal Responsibility and Budget Management) Act in 2004 and in accordance with this Act, brought down the fiscal deficit to 3.3 per cent of GDP in 2006-07 and 2.5 per cent of GDP in 2007-08. However, the year 2008-09 witnessed a massive fiscal deficit of 6.0 per cent as, because of economic slowdown, tax revenues fell on the one hand, and the government announced a number of concessions and increased public expenditure to boost demand in the economy on the other hand. In 2009-10, the fiscal deficit of Central government rose farther to 6.3 per cent of GDP. In 2010- 11, it was 5.1 per cent of GDP.

In India, the fiscal imbalance has been caused mainly by impudent increase in public expenditure. If fiscal imbalance is to be corrected, it is necessary to reduce the government expenditure to around 25 per cent of GDP. However, in 2009-10, the government expenditure constituted 29.1 per cent of GDP. Containment of public expenditure is essential but the government's capital expenditures in key infrastructural and social sectors must not be curtailed. This would require concerted effort at containing the revenue expenditure, particularly the consumption expenditure of the government consisting mainly of defence expenditure and administrative expenditure, subsidy payments and interest payments.

Although for the purpose of fiscal adjustment containment of the government expenditure should receive priority, special effort at additional resource mobilization through tax and non-tax sources is also necessary According to the Planning Commission, "The required additional revenues may have to be generated by a judicious mixture of broadening the tax base, rationalizing the tax rates and through non-tax sources. The government can also mobilize some resources by targeting black money which presently is estimated to be around 40 per cent of GDP.

An area where there is considerable scope for revenue mobilization is public services.

User charges on publicly provided utilities such as irrigation, electricity, water, road transport and higher education are much below their cost of provision. The overall recovery rates on services provided by the Central government are as low as about 35 per cent. They are even lower at about 14 per cent for the services provided by the State governments. Hence, unrecovered costs of public utilities are large and are a kind of subsidy to the users. The government can justifiably raise user charges on public utilities like electricity, irrigation, transportation and water.

The government however, does not seem to be serious about additional resource mobilization through raising the recovery rates on public utility services. It has also failed to cut down its consumption expenditures and subsidy payments. Its interest payments continue to increase as there is no serious attempt to liquidate substantial part of the existing stock of internal debt. Having failed in adopting hard corrective measures, the government has opted for some soft options such as reduction in capital expenditures and social services in real terms. A fall m capital expenditure by government is generally expected to cause an overall decline in the rate of capital formation, while the containment of expenditure on social services adversely affects the human well-being. The rate of gross capital formation in the public sector fell from 10.0 per cent of GDP in 1990-91 to 9.2 per cent of GDP in 2009-10. Adverse effects of reduction in expenditure on social services are not quantifiable in a short period Nonetheless they are always there and would be dearly visible in the long period.

Balance of Payments Adjustment

At present balance of payments situation is not as precarious as it was in 1990-91. *The level of foreign exchange reserves rose from a meagre $2.2 billion in March 1991 to* 5 *279.1 billion as at end-March 2010.* This accumulation of foreign exchange reserves suggests that the Indian economy has moved to a somewhat stable and sustainable balance of payments position in the post-reform period. The current account deficit was 3.1 per cent of GDP in 1990-91 but fell to 0.4 per cent in 1991-92 mainly due to import compression which in turn adversely affected the overall performance of the economy.

The government adopted a policy of import liberalization in 1992-93 considering a relatively comfortable foreign exchange reserves position. This raised the balance of trade deficit from $ 2.79K million in 1991-92 to $ 5.447 million in 1992-93 and m the process the current account deficit climbed to 1.7 per cent of GDP At this juncture the situation appeared to be slipping out of control but in 1993- 94 an impressive growth of exports of the order of 20.2 per cent reduced the trade deficit bringing down the current account deficit to 0.4 per cent of GDP, The trade deficit widened to S 9,049 million in 1994 95. This was due to a higher import growth of 34.3 per cent and a lower export growth of 18.4 per cent. However, there was some improvement in the invisibles account. Hence, the year 1994-95 ended up with a current account deficit of $ 3,369 million which was around 1.0 per cent of GDP. This was a sustainable balance of payments position and was not expected to present any financial problems. The current account deficit, however, rose to 1.7 per cent of GDP in 1995-96. This reflected the higher availability of external resources to bridge the higher investment-saving gap. Developments on the trade account during 1996-97 eased the pressure on the current account of the balance of payments and the current account deficit declined to 1.2 per cent of GDP in 1996-97 and further to 0.6 per cent of GDP in 2000-01. In 2001-02, the country witnessed a surplus on current account amounting to 0.7 per cent of GDP (this surplus had occurred after a gap of 24 years) This was followed by a surplus on current account in the next two years. It amounted to 2.3 per cent of GDP in 2003-04. After this, the country has again witnessed deficit in current account it was 0.4 per cent of GDP in 2004-05 and 1.3 per cent of GDP in 2007-08. As a result of economic slowdown in 2008-09 following global recession, the current account deficit widened to 2.3 pa cent of GDP in this year. This increased further to 2.8 per cent of GD. in 2009-10.

Policies relevant to the balance of payments which were adopted during the past two decades were guided by both stabilisation and structural reform considerations. In India's case, the balance of payments problems arose largely from inadequate coverage of imports by export earnings. In the beginning of the 1980s, this coverage ratio was only 52.4 per cent and led to a massive trade deficit. There was some improvement in it during the 1980s and in 1990-91 export earnings accounted for about 66.2 per cent of the value of imports. Obviously even this was an unsustainable position which required a series of moves on the exchange rate and the exchange rate regime.

To begin with, in July 1991 there was a devaluation of rupee by 18-19 per cent. This was followed by the liberalised exchange rate management system (LERMS) in the budget for 1992-93. Under this system, a dual exchange rate was fixed under which 40 per cent of foreign exchange was to be surrendered at the official rate while the remaining 60 per cent was to be converted at a market determined rate. The 1993-94 Budget adopted the unified exchange rate system. This system has been in operation since then. The experience with this system has been satisfactory as the period since 1993 has been marked by orderly conditions in the foreign exchange market, excepting a few episodes of volatility. The exchange rate management policy of the Reserve Bank in this period has been a policy of 'managed float regime' — Le., the Reserve Bank has focused on managing volatility with no fixed target while allowing the underlying demand and supply conditions to determine the exchange rate movements over a period in a orderly way. According to the Reserve Bank, this policy has withstood the test of time by ensuring a judicious mixture of 'flexibility' and 'pragmatism'. The annual average exchange rate of rupee in 2007-08 was S 1 = $40.26. It depreciated to S 1 = $45.99 in 2008-09 due to deceleration in capital flows and widening trade deficit. However, in 2009-10, the rupee strengthened against the dollar on the back of significant turnaround in foreign institutional investment inflows, higher foreign direct investment and NR1 (non-resident Indian) deposits, better macroeconomic performance of the economy and weakening of the US dollar in international markets. As a result, the rupee/US dollar exchange rate which was S 1 = $50.95 in end-March 2009 appreciated to S 1 = $45.14 as at end-March 2010. This appreciation has adversely affected the export sector of the economy.

STRUCTURAL REFORMS

Since July 1991 comprehensive liberalisation measures have been undertaken to improve the supply- side of the economy. Among these the more important are: (1) Trade and capital flows reforms; (2) Industrial deregulation: (3) Disinvestment and public enterprise reforms; and (4) Financial sector reforms.

Trade and Capital Flows Reforms

Since July 1991, the government has introduced a series of reforms in the trade sector which arc aimed to help integration of the Indian economy better with the rest of the world. Among these reform measures, devaluation of rupee in July 1991 and subsequently its depreciation against the currencies of the leading industrialised countries, introduction of the convertibility of the rupee first on trade account and then for the entire current account transactions, liberalisation of import regime, substantial reduction in customs tariff rates, dissemination of many items of trade and *Hide* ranging measures to give a thrust to exports are important.

The system of fixed exchange rates was abandoned by India in September 1975 and since then the system of managed exchange rate float has been in operation. Under the new system the nipee was not expected to appreciate against other currencies, causing a decline in the international competitiveness of the Indian exports. However, due to higher rate of inflation in India as compared to that in the developed countries, the real effective exchange rate of rupee did not fall as much as the nominal effective exchange rate of the rupee. Hence, as already written earlier, the government formally devalued rupee by IS-19 per cent in July 1991 to restore India's International competitiveness. This was followed by a liberalisation of the foreign trade regime through dismantling of some physical controls. Not only the import procedures were simplified, a significant number of items were also shifted outside the purview of import licensing.

As a first step towards a gradual reduction in the tariffs, the 1991-92 Budget had reduced the peak rate of import duty from more than 300 per cent to 150 per cent. The process of lowering the customs tariff rate was carried further in subsequent Budgets. The 1995-96 Budget reduced the peak rate of import duty from 65 per cent to 50 per cent This urns reduced to 40 per cent in the 1997-98 Budget. 12.5 per cent in the 2006-07 Budget and further to 10 per cent in the 2007"0H Budget

Over the past few years, not only substantial import duty cuts have been made in the case of machine tools, steel ores and concentrates, leather industry, electronics and telecommunications sectors, but the prevailing system of import duties has also been considerably rationalised with the purpose of establishing a parity in prices of goods produced domestically and internationally.

Earlier, a large number of exports and imports used to be canalised through public sector agencies. During the last two decades, a large number of export and import items have been decanal Used. Decanal is at ion of imports and exports is an important step towards opening of more areas of the external sector to the private sector. The government has also introduced a number of export promotion measures in recent years. These include establishment of Export Oriented Units for promoting exports from the agricultural and allied sectors, simplification of Export Promotion Capital Goods Scheme, introduction of Export Promotion Capital Goods scheme for the services sector, adoption of a more rational and convenient criterion for recognition of export houses/ Trading houses/Star Trading houses, broadening of areas of activity in Export Processing Zones, duty free import for exports under the advance licensing scheme, setting up of Special Economic Zones (SEZs), and creation of an exporters' grievance cell in the Ministry of Commerce to facilitate action on problems being faced by exporters. Besides these, some more schemes/measures have been introduced to accelerate the country's transition to a globally-oriented economy, to stimulate growth by providing access to capital goods, intermediates and raw materials, and to enhance technological strengths of the economy thereby improving the global competitiveness of Indian exports

The government has also liberalised capital flows in the form of foreign direct investment (FDI) as a part of the package of external sector reforms. Foreign companies are now allowed to use their trademarks, accept appointment as technical or management advisers borrow and accept deposits from the public and repatriate profits etc.

Industrial Deregulation

Historically, India's domestic economic activities have been subject to a wide array of physical controls. In the industrial sector, such controls took various forms: industrial licensing which regulated entry and expansion; resenation of a large number of industries for the public sector as well as small-scale sector; time consuming procedure required for the exit of industrial units; and price and distribution controls on xnrious industrial products. Jagdish Bhagwati and Padma Desai have been highly critical of this regulatory system.10 Isher J. Ahluwalia also blamed the industrial licensing system and bureaucratic controls for the industrial stagnation during the second half of the 1960s and the 1970s." The long time taken by the industrial licensing authorities to give clearance to the various proposals made it impossible for any project of importance to be completed within the scheduled time period. The industrial licensing authorities often took exception to the attempts of the industrial units to produce more than licensed capacity. Thus the objective of maximisation of output from a given licensed capacity got undermined Moreover, the industrial licensing system as it had evolved over the years had become a major source of political and bureaucratic corruption and was being used by powerful vested interests to throttle competition.

Limit on the size of the companies which ws earlier enforced under the Monopoly and Restrictive Trade Practices Act has now been scrapped. This will allow industrial units to grow to optimum sire and enjoy the benefits of economies of scale. The anti-monopoly legislation until this relaxation was made, had prevented many firms from growing to optimum size and thus achieves higher efficiency levels. The industrial location policy has been both simplified and liberalised. The phased manufacturing programme under which domestic manufacturers were required to increase the domestic input-content of their products in a specifics period has also been abolished under the new industrial policy. It is widely believed that these relaxations of the regulatory apparatus governing the industrial activity in this country in the past have considerably eased the entry barriers which should make the industrial sector more competitive both domestically and internationally. However, a major limitation of the structural reform in the industrial sector is that it has failed to evolve appropriate rules and procedures regarding exit of unviable industrial units The existing industrial exit policy is highly restrictive and time- consuming This is one factor which has led to widespread industrial sickness

It is widely believed that the regulatory mechanism had led to widespread inefficiency in the industrial sector. The government had. Therefore, relaxed some of the industrial controls even before it committed itself to structural reforms in 1991. The thrust of the new industrial policy announced in July 1991 has been on deregulation of the industrial economy in a substantial manner and opening up a large number of industries to the private sector. *The* requirement of industrial licensing has been abolished for all but 5 product categories. These are alcohol, cigarettes, hazardous chemicals, industrial explosives and electronics aerospace and defence equipment (all types).

In another significant step, the number of Industries reserved for the public sector has been reduced from 17 to 3. Now core industries like iron and steel, electricity, air transport shipbuilding, heavy machinery etc. and even strategic industry like defence productions have been opened up for the private sector.

Public Sector Reforms and Disinvestment

The public sector was originally intended to be the engine of self-sustained economic growth. It was also conceived to hold the commanding heights of the economy and to lead to technological advance. In order to fulfil these roles, it was necessary for the public sector to generate adequate investible surpluses. No doubt public sector contributed significantly to the expansion of the industrial base. Its role in diversifying the industrial structure has been no less. However, it has failed to generate sufficient internal resources for its further expansion and, as a result, has now become a major constraint on economic growth. Under structural reforms, the government has abided to give greater managerial autonomy to public enterprises to enable them to work efficiently. In addition to this, two other key elements of the government's strategy for public enterprise reform are the promotion of increased private sector competition in areas where social considerations are not paramount and partial divestment of equity in selected enterprises.

Equity amounting to Rs. 99,739 crore in public sector undertakings was disinvested to public sector financial institutions, mutual funds, private corporate and general public up to 22.12.2010. Initially the government had talked of disposing off burdensome loss-making PSUs while well performing PSUs were to be given autonomy to enable them to develop as global Indian multinational corporations. However, there is virtually no evidence of any such initiative in practice. The government policy seems to be entirely limited to selling off shares of prime PSUs with the aim of bridging budget deficits.

Financial Sector Reforms

A vibrant, efficient and competitive financial system is necessary to support the structural reforms in the real economy. As pointed out by the Tenth Five Year Plan. "An important outcome of financial sector reforms is that it contributes to greater flexibility in the factor and product markets. With the real sector becoming increasingly market driven and engulfed by a competitive environment there is need for a matching and dynamic response from the financial sector. This is possible only if the productivity and efficiency of the financial system improves. Keeping this in view, the government set up Committee on the Financial System in 1991 and on Banking Sector Reforms in 1998 (Narasimham

Committees).

The Committee on Financial System was asked to examine the country's financial system and its various components and to make recommendations in respect of the following:

1. For improving the efficiency and effectiveness of the Financial System, with special reference to economy of operations, accountability and profitability.
2. For infusing greater competition into the financial system so as to enable the banks and other financial institutions to respond more effectively to the credit needs of the economy.
3. For ensuring appropriate and effective supervision over the various entities in the financial sector, in particular the commercial banks and term lending institutions.

The Committee was also required to review the existing legislative framework and to suggest necessary amendments for implementing the recommendations.

Committee on Banking Sector Reforms

The report of the Narasimham Committee on Financial System was placed before the Parliament in December 1991, and since then it has become a basis for introducing reforms in the banking sector. The major reform measures undertaken during the past few years are as follows:

1. The level of the statutory liquidity ratio (SLR) and the cash reserve ratio (CRR) were progressively raised during the 1980s for combating inflationary pressure generated by large budgetary deficits. This, however, adversely affected the profitability of banks and pressurized them to charge high interest rates on their commercial sector advances. *The government has over the years brought down both statutory liquidity ratio and cash reserve ratio in a phased manner. The effective statutory liquidity ratio has been lowered down to 24 per cent with effect from November 8, 2008.* The cash reserve ratio was also brought down to 4.5 per cent with effect from June 14, 2003. However, to check liquidity overhang in the system the RBI hiked the CRR to 5 per cent in October 2005. It was raised in phases and stood at 9 per cent on August 30, 2008. However, because of slowdown in the economy during the latter half of the financial year 2008-09 following global recession, CRR was lowered in stages and brought down to 5.0 per cent with effect from January 17, 2009 in a bid to increase credit growth. *To check*

inflationary pressures in the economy, the CRR was again raised in phases to 6.0 per cent from April 24, 2010.

2. The RBI introduced new prudential norms in respect of income recognition, classification of assets, provisioning of bad debts and capital adequacy. The minimum capital standards were prescribed in accordance with the Basel Committee norms under which banks were required to maintain unimpaired capital funds equivalent to 8 per cent of the aggregate of the risk-weighted assets. Banks were expected to touch 8 per cent capital to risk-weighted asset ratio (CRAR) by March 1996. Foreign banks operating in India and Indian banks operating abroad were, however, required to attain 8 per cent by March 1993 and March 1994 respectively. The CRAR was raised from 8 per cent to 9 per cent from the year ended March 2000. CRAR for commercial banks at end-March 2009 stood at 13.2 per cent. *Now all banks groups have CRAR much higher than the minimum 9 per cent stipulated by the Reserve Bank of India.*

3. Commercial banks attaining capital adequacy norms and prudential accounting standards had a freedom to set up new branches without the approval of the Reserve Bank of India. Banks can now also had to rationalise their existing branch network by relocating branches, opening of specialised brandies, setting up controlling offices etc.

4. The RBI has announced guidelines for setting up banks in the private sector. These banks should be financially viable and should avoid concentration of credit and cross holdings with industrial groups. Further, they will have to observe priority sector lending targets as applicable to other banks.

5. Number of interest rates slabs on banks advances was reduced from about 20 in 1989-90 to 2 in the financial year 1994-95. This attempt to unify interest rate structure aims at reducing the degree of cross-subsidy in the banking system. Moreover, interest rates in the banking system have been liberalised, compared to the situation prevailing before 1991. According to Montek S. Ahuwalia, "The rationale for liberalising interest rates in the banking system h vs to allow banks greater flexibility and encourage competition”.

6. The supervisory system of the RBI has been strengthened with the establishment of a new Board for Financial Supervision under the chairmanship of a Deputy Governor of

the RBI. The Board ensures implementation of the regulations with respect to credit management, asset classification, income recognition, and provisioning, capital adequacy and treasury operations.

7. Agreements between the RBI and public sector banks have been made to improve the management and the quality of the performance of the latter. This includes management information system and the internal audit and control mechanisms.

8. Recovery of debts due to banks and other financial institutions in the past has been unsatisfactory. Hence, an Act was passed in 1993 under which Special Recovery Tribunals have been set up to facilitate quicker recovery of loan arrears.

9. The guidelines for determining the maximum permissible bank finance have been made more flexible. Banks will now have greater freedom in determining the working capital needs of the borrowers and responding to local requirements in an appropriate manna.

Following the recommendations of the Narasimham Committee on Financial System the above reform measures were undertaken. Meanwhile, major changes had taken place in the domestic economic and institutional scene. Also, there was a movement towards global integration of financial services. Under the circumstances banking system had to be stronger and better equipped to compete effectively in a fast changing economic environment. The government thus appointed the Committee on Banking Sector Reforms under the Chairmanship of M. Narasimham. The Committee submitted its report m April 1998. Its major recommendations are as follows:

1. Strong banks should be merged and relatively weak and unviable ones should be closed. Mergers between banks and development financial institutions may be considered if it makes economic and commercial sense.

2. The country should have two or three banks with international orientation, eight to ten national banks and a large number of local banks. The third tier banks should remain confined to smaller geographical regions. The first and second tier banks should take care of the needs of the corporate sector.

3. The Committee recommended new and higher norms for capital adequacy. It suggested that the minimum Capital to Risk-weighted Assets Ratio (CRAR) be increased to 10 per

cent from its earlier level of 8 per cent.

4. Budgetary support for recapitalisation is not viable and should thus be abandoned.
5. Legal framework is not adequate for credit recovery. It should be strengthened.
6. Net non-performing assets of all banks be brought down to below 5 per cent by the year 2000 and to 3 per cent by 2002.
7. There should be rationalisation of branches and staff.
8. Bank board's should be depoliticised under the RBI supervision.
9. The policy of licensing new private sector banks may be continued.
10. Foreign banks may be allowed to set up subsidiaries or joint ventures in India. Such subsidiaries or joint ventures should be treated on par with other private banks and subject to the same conditions with regard to branches and directed credit as these banks.

There has to be an integrated system of regulation and supervision to regulate and supervise the activities of banks, financial institutions and non-bank finance companies. The agency for this purpose be renamed as the Board for Financial Regulation and Supervision (BFRS).

The second half of the 1990s saw the dangers associated with the mindless liberalisation in the financial sector world over. Incidents like those of the Barings Bank and the bank failures during the South-East Asian crisis exposed the problems which arose from inadequate regulation and supervision of banks Hence, the Committee on Banking Sector Reforms under the Chairmanship of L. Narasimham particularly stressed on prudential measures like the increase in the Capital to Risk-weighted Assets Ratio (CRAR), the introduction of market risk on government securities, the stricter Son-Performing Assets (NPAs) norms and provisioning requirements and the introduction of asset- liability management guidelines, management guidelines.

In line with these recommendations of the Second Narasimham Committee a host of measures to strengthen the banking system have been announced. Important measures from this point of view are: raising the CRAR to 9 per cent, strengthening prudential accounting norms, laying down Asset Liability Management (ALM) and Risk Management guidelines and directing the banks to provide additional information in the 'Notes to Accounts' in the balance sheets to increase transparency. In 2002, Securitisations, Reconstruction of Financial Assets and Enforcement of Security Act was passed in order to provide a satisfactory legal framework for the recovery of bank credit.

CP. Chandrasekhar critically examine financial liberalisation in India. They argue that the Indian experience with reform in the financial sector indicates that, inter alia, there are three important outcomes of such liberalisation. First, there is increased financial fragility which the "irrational boom" in India's stock market epitomizes. Second, there is deflationary macroeconomic stance, which adversely affects public capital formation and the objectives of promoting employment and reducing poverty. Finally, there is a credit squeeze for the commodity producing sectors, and a decline in credit delivery to rural India and small scale industry. The belief that the financial deepening that results from liberalisation would in myriad ways neutralise these effects has not been realised.

Economic Reforms-An Appraisal

The EPW Research Foundation has identified the following short-comings of the New Economic Reforms:

1. Absence of a broader development strategy
2. Wrong sequencing of Reforms
3. Hasty pace of Reforms
4. Prerequisites of reforms are ignored
5. Absence of human touch.

CENTRE-STATE FINANCIAL RELATIONS- THE ROLE OF FINANCE COMMISSION

Governments may be classified into unitary and federal Spending upon the concentration and distribution of power and the relation between the central and local authorities under the unitary system, whole power of government is conferred by the constitution upon a single central organ and local governments derive whatever authority they possess from this central organ. *This* system of government is prevalent in the UK, France, Germany, Austria, and most of the countries of Asia. As against the unitary system, federal system provides for a distribution and division of governmental power between the Central government and the governments of the individual States of which the federation is composed. The general principle of division of power is such that affairs of common interest to the federation as a whole and thus requiring uniformity of regulation are placed under the Central government, while all local affairs are left to the State governments. The two classic examples of federal system are the USA and Canada. After independence, India also opted for a federal system of government on the lines of the USA and Canada.

FEDERALISM AND FEDERAL FINANCE

The distribution of powers in countries adopting the federal system of government defines the financial relations between the Central and the State governments. However, there are some special problems that have to be grappled within federal financial system. These are: (I) the sources of revenue assigned to the Centre and the States should be adequate to enable them to fulfil the functions allotted to them. However, in modern States, it is frequently not possible to ensure this and it is highly unlikely that the needs and resources of each government will be exactly balanced. Therefore, it becomes necessary to evolve a mechanism of adjustments so that shortages and surpluses are evened out; each government should have independent financial authority, i.e., each government should have separate sources of revenue, powers to levy taxes and borrow, and to incur expenditure to carry out its functions effectively; and iii. a certain uniformity should be ensured in all areas of the federation so that no preference is given to one State over the other as regards payment of federal taxes.

Division of Resources

We have discussed the division of powers to levy taxes between the Central and the State governments in the chapter on "The Indian Tax Structure. The principle that has been followed in deciding this division is that taxes likely to have an effect upon the economic life of the country as a whole are levied by the Centre while taxes which have no effect in States other than the ones from which they are collected are levied by the States. However, since resources of the Central government yield a substantial surplus, while State governments experience heavy deficits, a mechanism of transfer of resources from the Centre to the States has been provided. In addition to this, Article 275 of the Constitution provides for grants-in-aid to the States in need of assistance. Different sums can be fixed for different States, so that the weaker States can be given specific assistance to meet the necessary expenditure in the proper discharge of their duties to the people. Article 282 provides for grants by the Union government to the State governments for any public purpose. Under Article 275 grants-in-aid are fixed on the advice of the Finance Commission, while under Article 282 grants can be fixed by the Central government on its own discretion.

The State governments also borrow from the Centre to carry out the various developmental and rehabilitation programmes. Thus transfer of resources from the Centre to the State governments can be considered under three heads — (i) share in taxes and duties, (ii) grants, and(iii) loans.

Transfer of Resources

Resources transferred from the Centre to the States have increased continuously during the planning period. In fact, resources transferred during each plan in nominal terms were twice or more as compared to the previous plan. The share of these transfers in aggregate expenditure of the State governments has varied between 35 per cent and 45 per cent. This clearly brings out the heavy dependence of the Stale governments on the Centre.

Over the years the largest transfer from the Centre to the States has been via taxes and duties followed by loans and grants in that order.

THIRTEENTH FINANCE COMMISSION AWARD: PERIOD 2010-15

In terms of the Presidential Order dated November 13. 2007. The Thirteenth Finance Commission was asked to make recommendations relating to tax devolution between the Centre and States; grants-in-aid to States; and measures needed to augment the consolidated fund of a State to supplement the resources of the panchayats and municipalities. In addition to the above, the Commission has also been mandated to review the state of finances of the Union and States, keeping in view, in particular, the operation of the States' Debt Consolidation and Relief Facility 2005-2010 introduced by the Central Government on the basis of the recommendations of Twelfth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth. Subsequently, the Commission was given additional terms of reference including the mandate to review the road map for fiscal adjustments and suggest a suitably revised one with a view to maintaining the gains of fiscal consolidation through 2010 to 2015, particularly considering the need to bring the liabilities of the Central government on account of oil, food and fertiliser bonds into the fiscal accounting, and the impact of various other obligations of the Central government on the deficit targets.

Sharing of Union Tax Revenues

The Thirteenth Finance Commission has pointed out that there has been a significant increase in the tax revenue of the Centre, particularly from royalties and the telecommunication sector.1 In the future, the resource position of the Centre is expected to improve on account of the buoyant non-tax revenues. Moreover, the buoyancy of Central taxes exceeds the buoyancy of combined tax revenue. The States, expenditure is also likely to increase considerably over ihe next few years on account of increasing burden of centrally sponsored schemes like Sarva Shiksha Abhiyan (SSA), Right of Children to Free and Compulsory Education (RTE). etc.. as they are required to put in a "matching contribution' in most cases. Provision of rural and urban infrastructure, protection of environment, implementation of the recommendations of the Sixth Central Pay Commission, etc., are expected to push up expenditures of the States still further. On account of all these reasons, the Thirteenth Finance Commission has increased the share of the States in net proceeds of shareable Central taxes to 32 per cent. For the purpose of determining the States' share in Central taxes. the Thirteenth Finance Commission has treated the proceeds of service tax as part of the divisible pool.

However, the Commission has not accepted the demand of the States for inclusion of cesses and surcharges imposed by the Centre in the divisible pool. At the same time, it recommends that the Centre review the current surcharges and cesses with a view to reducing their share in the gross tax revenues.

The Eleventh Finance Commission had, for the first time, recommended an indicative ceiling on all revenue account transfers from the Centre to the States at 37.5 per cent of the

Centre' gross tax revenue receipts. This ceiling was raised to 38 per cent by the Twelfth Finance Commission. This ceiling has been raised further to 39.5 per cent by the Thirteenth Finance Commission.

Criteria for Tax Devolution

The Thirteenth Finance Commission argues that its recommendations on tax devolution are based on the considerations of "need, fiscal deficiency and adequate incentivisation for better performance".' The criteria and weights for tax devolution as recommended by the Commission are given in Table 54.6.

As is clear from Table 54.4 and Table 54.6, the Thirteenth Finance Commission has accorded the same weightage to population (25 per cent) as was done by the Twelfth Finance Commission. The weightage of area also remains the same at 10.0 per cent. The index of fiscal discipline was introduced by the Eleventh Finance Commission and was continued by the Twelfth Finance Commission. Both the Commissions also took into account the criterion of 'tax effort'. The combined weightage of these two criteria was 12.5 percent in the Eleventh Finance Commission and 15.0 per cent in the Twelfth Finance Commission. The Thirteenth Finance Commission opines that "there is a strong case to incentivise States following fiscal prudence, particularly in the context of the need to return to the path of fiscal correction"." Accordingly, it has assigned a weight of 17.5 per cent to fiscal discipline.

The criterion 'fiscal capacity distance' is the new criterion being adopted by the Thirteenth Finance Commission. It is somewhat akin to the income distance criterion used by the Twelfth Finance Commission but there is an important difference. The income distance criterion used by the Twelfth Finance Commission, measured by per capita GSDP. is a proxy for the distance between States in tax capacity. When so proxied, the procedure implicitly applies a single average tax-to-GSDP ratio to determine fiscal capacity distance between States. The Thirteenth Finance Commission recommended, instead, the use of separate averages for measuring tax capacity, one for general category States and another for special category States. The justification for doing so is that between the two categories, a single average applied (implicitly) to GSDP does not accurately capture the fiscal discipline between the two groups.

Fiscal distance is obtained for each State by the distance of its estimated per capita revenue from the estimated per capita revenue of Haryana, the second highest in the per capita income ranking after Goa. The distance so computed for all States, barring Haryana and Goa. defines the per capita revenue entitlement of each State based on fiscal distance. For Haryana and Goa, a revenue entitlement of Rs.100 per capita has been assigned. These per capita entitlements are then multiplied by the respective 1971 population figures of each State to arrive at the share of each Slate in tax devolution. The Thirteenth Finance Commission has assigned a weight of 47.5 per cent to the fiscal capacity distance criterion.

On the basis of the four criteria defined, the maximum share in all shareable taxes (excluding service tax) is of Uttar Pradesh (19.677 per cent) followed by Bihar (10.917 per cent), West Bengal (7.264 per cent). Madhya Pradesh (7.120 per cent) and Andhra Pradesh (6.937 per cent) in that order. The case of service tax is taken up separately. The maximum share here also is of Uttar Pradesh (19.987 per cent) followed by Bihar (11.089 per cent). West Bengal (7.379 per cent). Madhya Pradesh (7.232 per cent) and Andhra Pradesh (7.047 per cent). Since service lax is not levied in Jammu and Kashmir, the share of this State in net proceeds from service tax is nil.

The Commission noted that, relative to Twelfth Finance Commission, there is an increase in the ratio of devolution to GSDP (as projected by it) for each State. Accordingly, “every State, taken individually, gains in terms of devolution relative to its GSDP”

Grants-in-A id

Grants-in-aid arc an important component of Finance Commission transfers. The size of the grants has varied from 7.7 per cent of total transfers under Seventh Finance Commission to 26.1 per cent of total transfers under Sixth Finance Commission. Grants recommended by Twelfth Finance Commission amounted to 18.9 per cent of total transfers. The Thirteenth Finance Commission has suggested several categories of grants-in-aid amounting in aggregate to Rs.3, 18,581 crore which constitutes 18.03 per cent of total transfers. As far as post-devolution Non-Plan Revenue Deficit (NPRD) grants are concerned, they have ranged from a maximum of 100 per cent of total grants, as recommended by the Fourth Finance Commission and to a minimum of 33.1 per cent of total grants, as recommended by the Fifth Commission. NPRD grams comprised 39.86 per cent of the total Twelfth Finance Commission grants. The Thirteenth Finance Commission has recommended the lowest ever NPRD grants equal to 16.26 per cent of total grants. According to the Commission, “This has been possible due to the sustained efforts of States to adhere to the fiscal reform path laid down by their respective Fiscal Responsibility and Budget Management (FRBM) legislations"." To help the States in fulfilling their obligations as enshrined in the Constitution — right of all children, in the age group 6 to 14, to free and compulsory schooling — the Commission has provided grants worth 7 24,068 crore to them, low new 'considerations' in the terms of reference of the Commission are the need to improve the quality of public expenditure to obtain better outputs and outcomes and the need to manage ecology, environment and climate change consistent with sustainable development. The Commission has recommended grants worth Rs. 14,446 crore for the former and Rs. 15,000 crore for the latter (Rs. 5,000 crore each for (i) protection of forests, (ii) renewable energy and (iii) water sector management).

Disaster Relief

The existing system of financing relief expenditure mainly revolves around the CRFs (Calamity Relief Funds) maintained at the State level and the NCCF (National Calamity

Contingency Fund) at the Central level. Both these funds target immediate relief measures and exclude measures for mitigation or post-calamity reconstruction. The CRF is a resource available to the States to meet the expenses of relief operations for a range of specified calamities. The NCCF is a national fund to provide assistance to States for calamities of rare severity, beyond the coping capacities of the States' CRFs. While the total amount of assistance for CRFs is decided by the Finance Commission on the revealed needs of individual States, the NCCF has a dedicated source of funding through a special duty on selected Hems. The Central government has released Rs. 12.208 crore under the CRF in the four year period 2005- 09 against the Rs. 12,547 crore share recommended by the Twelfth Finance Commission for the same period. Under NCCF, (he Central Government has released Rs.7,677 crore over the period 2005-09 for various calamities.

The Thirteenth Finance Commission has recommended that the NCCF should be merged into the National Disaster Response Fund (NDRF) and the Calamity Relief Fund (CRF) into the State Disaster Response Funds (SDRFs) of the respective States. Contribution to the SDRFs should be shared between the Centre and States in the ratio of 75:25 for general category States and 90:10 for special category States. Balances under the State CRFs and the NCCF as on March 31, 2010 should be transferred to the respective SDRFs and NDRF.

The total size of the SDRF has been worked out as Rs. 33,581 crore, to be shared in the ratio given above, with an additional grant of Rs. 525 crore for capacity building.

Local Bodies

The recommended grants for local bodies for the five year period 2010-15 have been placed at Rs. 87,519 crore. Of this, the share of 'general basic grant' is Rs. 56,335 crore, the share of 'general performance grant' is Rs. 29,826 crore and the share of ''total special areas grant' is Rs. 1,357 crore.

Revised Roadmap for Fiscal Consolidation

The Thirteenth Finance Commission has made a number of recommendations for fiscal consolidation. Some of these recommendations are as follows:

1. The revenue deficit of the Centre needs to be progressively reduced and eliminated, followed by emergence of a revenue surplus by 2014-15.
2. A target of 68 per cent of GDP for the combined debt of the Centre and States should be achieved by 2014- 1S. The fiscal consolidation path embodies steady reduction in the augmented debt stock of the Centre to 45 per cent of GDP by 2014-15 and of the Slates to less than 25 per cent of GDP by 2014-15.
3. The Medium Term Fiscal Plan (MTFP) should be reformed and made a statement of commitment rather than a statement of intent.

4. The FRBM Act needs to specify the nature of shock that would require a relaxation of FRBM targets.
5. In case of macroeconomic shocks, instead of relaxing the State's borrowing limits and letting them borrow more, the Centre should borrow and devolve the resources using the Finance Commission tax devolution formula for inter se distribution between States.
6. An independent review mechanism should be setup by the Centre to evaluate its fiscal reform process. The independent review mechanism should evolve into a fiscal council with legislative backing over time.

Total Transfers to States

The Thirteenth Finance Commission has recommended the total transfer of resources from the Centre to the States for the period 2010-15 to the fixed at Rs 17.76,676 crore. The share of taxes and duties in this transfer is Rs.14.48.096 crore while the share of grants-in-aid is Rs. 3.18.581 crore.

OTHER SOURCES OF TRANSFER

In addition 10 transfers of resources from the Centre to the States according to the recommendations of the Finance Commission, there are two other sources of transfer — (i) assistance for Plan purposes from the Planning Commission, and (ii) discretionary grants from the Centre to the States. These sources of transfer have contributed substantially more resources than statutory transfers (which are transfers through the Finance Commission) and reflect the considerable power that the Central government enjoys in influencing the decision-making process at the State level. For a number of years during the period of planning, statutory transfers have remained less than one-third of total transfers, while the remaining two-thirds were contributed by the Planning Commission as assistance for Plan purpose or by the Central government under the head 'discretionary grants'. There were no objective criteria to decide the distribution of non-statutory transfers and this introduced an element of arbitrariness in the whole scheme.

Everything depended on what the Centre thought about the needs of the States. Basically, Plan assistance was meant to enable the States to undertake certain schemes according to Plan priorities. In actual practice, however, the States were presented with a choice of schemes — each with predetermined proportions of loans and grants' assistance. Though the Planning Commission had no statutory basis (as against the Finance Commission which is an adhoc quinquennial body statutorily set up to recommend devolution of resources from the Centre to the States, it tended to take up the functions of the Finance Commission and for a considerable period of planning, has remained the more important source of transfer. Since it was not guided by any objective criteria, the whole scheme introduced arbitrariness in the determination of resource transfers.

The Gadgil formula: It was only from 1969-70 onward that objective criteria were adopted for Plan assistance to the States. The formula evolved for the purpose was known as the Gadgil formula which gave 60 per cent weightage to population. 10 per cent to per capita income is below national average 10 per cent to tax effort in relation to per capita income. 10 per cent to continuing major and medium irrigation projects, and 10 per cent to special problems of individual States (like those relating to metropolitan areas, floods, chronically drought affected areas and tribal areas). Under the Gadgil formula, it was stated that 30 per cent of total Plan assistance would be given in the form of grants and 70 per cent in the form of loans. This provision did not apply to Jammu and Kashmir. Assam and North-Eastern States in whose case 10 per cent was to be given in the form of loans and the rest 90 per cent in the form of grants. This formula was used for distribution of Central Plan assistance during Fourth and Fifth Plans

Since the criterion in respect of on-going programmes was weighted in favour of rich States. Gadgil formula was modified in the beginning of the Sixth Plan (August 1980 to be precise) and the weightage for ongoing schemes was added with per capita income, making its weight 20 per cent this modified formula became the basis of allocation of Central Plan assistance to States in Sixth and Seventh Plans and Annual Plan 1990-91. Keeping in view suggestions made by some of the States for revising the modified Gadgil formula, various alternatives were considered by the National Development Council in October 1990 and the formula was revised. The revised formula laid down criteria with weightage of population (55 per cent), per capita income (20 per cent deviation method and 5 per cent distance method), fiscal management (5 percent) and special development problems (15 per cent). This formula was followed for distribution of Central assistance for 1991-92 only.

The Mukherjee formula: Most of the Slate governments expressed reservations on the modified Gadgil formula and keeping in view their concerns, a Committee was constituted under the chairmanship of Pranab Mukherce. the Deputy Chairman of the Planning Commission, to evolve a suitable formula for distribution of Central assistance. The suggestions of the Mukherjee Committee were discussed by the National Development Council (NDC) on 23-24 December 1991 wherein a consensus emerged and a revised formula adopted for allocation of Central Plan assistance to the States for the Eighth Plan. The Mukherjee formula took into account the following criteria for the non-special category States: (0 population on the basis of 1971 census (60 per cent): (ii) per capita income (20 per cent on the basis of deviation method covering Stales with per capita SDP below the national average and 5 per cent on the basis of distance method covering all States); (iii) performance assessed on the basis of tax effort, fiscal management and progress in respect of national objectives (7.5 per cent) and (iv) special problems (7.5 per cent).

MODULE III

GROSS DOMESTIC PRODUCT AND SECTORS

A. AGRICULTURE

ROLE OF AGRICULTURE IN INDIAN ECONOMY

Indian agriculture had reached the stage of development and maturity much before the now advanced countries of the world embarked on the path of progress. At that time, there was a proper balance between agriculture and industry and both flourished hand in hand. This situation continued till the middle of the eighteenth century. The interference from the alien British government and its deliberate policy of throttling the village handicrafts and cottage industries destroyed the proper of balance and the economy of the j country was badly shattered. Britishers pursued a typical I colonial policy in India and did nothing to develop (or| restore) agriculture. Instead, they created a class of intermediaries known as zamindars who sucked the very blood out of the rural poor. A substantial part of the produce was taken away by this parasitic class and the actual cultivator was left only with subsistence income. The cultivators had neither the resources nor the incentive to invest in agriculture. Therefore, Indian agriculture in the pre-Independence period can be correctly described as a 'subsistence' occupation. It was only after the advent of planning (and more precisely after the advent of green revolution in 1966) that some farmers started adopting agriculture on a commercial basis. Let us now discuss the jfole of agriculture in Indian economy.

A. Share in national income: At the time of the First I World War. Agriculture contributed two-thirds of national income. This was on account of the practical non-existence industrial development and infrastructure. However, after the initiation of planning in India, the share of agriculture has persistently declined on account of the development of the secondary and tertiary sectors of the economy. From 55.3 per cent in 1950-51 the share of agriculture and allied activities (includes agriculture, forestry and logging and fishing) in GDP at factor cost declined to 37.9 per cent in 1980-81 (at 1999-2000 prices). The share of agriculture and allied activities in GDP at factor cost was 14.6 per cent in 2009-10 (at 2004-05 prices).

The share of agriculture in national income is often taken as an indicator of economic development. Normally, developed economies are less dependent on agriculture as compared to underdeveloped countries. For example, only 2 per cent of GDP is derived from agriculture in the USA and the UK. Thus, it seems that as the country progresses, the dependence on agriculture declines.

B. Largest employment providing sector: In 1951, 69.5 per cent of the working population was engaged in agriculture. This percentage fell to 66.9 per cent in 1991 and to 56.7 per cent in 2001. In 2004-05, agriculture provided employment to 52.1 per cent of the work-force. However, with rapid increase in population the absolute number of people engaged in agriculture has become exceedingly large. Development of the other sectors of the economy has not been sufficient to provide employment to the increasing additions to working population who are, therefore, forced to fall back upon agriculture even if their marginal productivity on land is zero or nearly so. This gives rise to the familiar problem of underemployment and disguised unemployment.

Most of the underdeveloped countries exhibit this heavy dependence of working population on agriculture. For example, 57 percent of the economically active population in Bangladesh was engaged in agriculture in 1999. This percentage was 68 in China and 48 in Pakistan in the same year. As against this, the percentage of economically active population engaged in agriculture is very much less in developed countries. For example, in Japan and France 4 per cent, and in USA and UK only 2 per cent of the economically active population was engaged in agriculture in 1999.

C. Provision of food surplus to the expanding population: Because of the heavy pressure of population in labour-surplus economies like India and its rapid increase, the demand for food increases al a fast rate. The existing levels of food consumption in these countries arc very low and with a little increase in per capita income, the demand for food rises steeply (in other words, it can be stated that the income elasticity of demand for food is very high in developing countries). Therefore, unless agriculture is able to continuously increase its marketed surplus of food grains, a crisis is likely to emerge. Many developing countries arc passing through this phase and. in a bid to meet the increasing food requirements, have been compelled to import large quantities of food grains.

Domestic demand for food grains is expected to increase from 207 million tonnes in 2004-05 to 235.4 million tonnes by the end of the Eleventh Five Year Plan (i.e.. by 2011-12) and further to 280.6 million tonnes by the end 2020-21. Meeting this demand would require 1.86 per cent annual growth in food grains production during the Eleventh Plan and 2 per cent per annum beyond that. The challenges facing the economy would be clear from the fact that during the recent 10 years (1997-98 to 2006-07), food grains production increased annually by a meagre 0.48 per cent.

D. Contribution to capital formation: There is general agreement on the importance of capital formation in economic development. Unless the rate of capital formation increases to a sufficiently high degree, economic development cannot be achieved. Since agriculture happens to be the largest industry in developing countries like India, it can, and must, play an important role in pushing up the rate of capital formation. If it fails to do so, the whole process of economic development will suffer a setback. To extract surplus from agriculture, the policies advocated are: (i) transfer of labour and capital from farm to non-farm activities; (ii) taxation of agriculture in such a way that the burden on agriculture is greater than the governmental services provided to agriculture; and (iii) turning the terms of trade against agriculture by imposing price controls on agricultural products, taxation or the use of multiple exchange rates that discriminate against agriculture. The implementation of these policy measures in the developing countries is, however, a difficult task. Therefore, generation of surplus from agriculture will ultimately depend on increasing the agricultural productivity considerably.

E. **Providing raw materials to industries:** Agriculture provides raw materials to various industries of national importance. Sugar industry, jute industry, cotton textile industry, vanaspati industry are examples of some such industries which depend on agriculture for their development. The entire range of food processing industries is similarly dependent on agriculture. Therefore, unless agriculture; develops, these industries will also remain backward.

F. **Market for industrial products:** Since more than two thirds of the population of developing countries like India lives in rural areas, increased rural purchasing power is a valuable stimulus to industrial development. This point was emphatically brought home by Ragnar Nurkse when he stated. "The trouble is this: there is not a sufficient market for manufactured goods in a country where peasants, farm labourers and their families, comprising typically (two-thirds to four-fifths of the population are too poor to buy factory products, or anything in addition to the little they already buy. There is a lack of real purchasing power reflecting the low productivity in agriculture". Therefore, steps taken to expand agricultural output and productivity of the income of the rural sector will increase causing; in to an increased demand for industrial products and the pr of industrial development will also receive a boost up.

In India, with the spread of Green Revolution to more and more areas in recent years (particularly during the two three decades), incomes of large farmers have increased considerably whereas their tax liabilities are negligible. This has increased their purchasing power substantially with the result that the demand for industrial goods in the rural markets is witnessing a marked increase. The corporate sector is very well aware of this rising demand and is reorienting its marketing strategy and production pattern to tap this large market. Manufacturers of household items (particularly items of daily use like tea. soaps, determents, clothes, cycles, scooters, radios and transistors, televisions etc.) are vying with each other to get as large a chunk of this market as possible. In fact, many multinational corporations planning to enter the Indian market (thanks to the 'liberal' economic policies of the Government of India since 1991) have an eye on this expanding market.

G. Importance in international trade: For a number of years the three agriculture-based exports of India — cotton textiles, jute and tea — accounted for more than 50 per cent of export earnings of the country. If we add the export of other agricultural commodities like cashew kernels, tobacco, coffee, vanaspati oil. sugar, etc., the share *of* agriculture in total exports rose to around 70 to 75 per cent. Such heavy dependence on agricultural commodities f<* export earnings reflected the underdeveloped nature of the economy. With economic progress and consequent diversification of production *base,* the share of agricultural goods in total exports has consistently fallen. For instance, the share of agricultural exports in total exports was 44.2 per cent in 1960-61. This fell consistently to 30.7 per cent in 1980-81 and 9.9 percent in 2009-10 as far as composition of imports is concerned, capital goods, industrial machinery, petroleum and petroleum products and maintenance imports have accounted for the bulk of imports. However, during certain years the country had to face severe drought conditions and large-scale imports of foodgrains had to be resorted to India also imports dairy products, fruits, vegetables, animal and vegetable oils and raw materials.

The above discussion brings out clearly the role and importance of agriculture in the Indian economy. In fact, development of agriculture is a virtual precondition of sectoral diversification and hence of development itself. A growing surplus of agricultural produce is needed in the I country to (i) ,increase supplies of food and agricultural 1 raw materials at non-inflationary prices; (ii), widen the domestic market for industrial goods through increased purchasing power within the rural sector; (iii), facilitate inter sectoral transfers of capital needed for industrial development (including infrastructure); and (iv) ,increase foreign exchange earnings through agricultural exports.

CROPPING PATTERN IN INDIA

By crop pattern, we mean the proportion of area under different crops at a point of time, changes in this distribution over a period of time, and factors determining this change in distribution. Cropping pattern in India is determined mainly by natural factors, like rainfall, climate and soil conditions. However, technological factors have also played an important pan. For example, consequent upon the adoption of the new seed-fertiliser technology (generally known as the High Yielding Varieties Programme) in the mid-

1960s, area under wheat increased significantly, in recent years, the government introduced various programmes for increasing the production of oilseeds. As a result, area under oilseeds increased rapidly. Significant fell about the cropping pattern in India are summarised below:

Food crops including cereals, millets, pulses, vegetables and fruits cover nearly three-fourths of total cropped area. Of the total area under foodgrains. a large proportion is occupied by cereals. For instance in 1950-51. out of total area of 97.3 million hectares under foodgrains as much as 78.2 million hectares (representing 80.4 per cent) was devoted to cereals. Of the total area of 121.3 million hectares under foodgrains in 2009-10 the share of cereals was 98.0 million hectares (i.e., 80.8 per cent). This shows that the area under pulses was only about 18-19 per cent of the total area under foodgrains both in 1950-51 and 2009 10.

Rice is the most important foodgrain crop in India. In 1950-51, it was grown on 30.8 million hectares which amounted to 31.6 per cent of total area devoted to foodgrains. In 2009-10. it was grown on 41.8 million hectares which amounted to 34.5 per cent of total area under foodgrains. This shows that rice is grown on more than one third of the total area under foodgrains. In fact, area under rice has increased in almost all the States in recent years. This is on account of notable improvements in the production of rice owing to special lice production programmes and rice technology having started yielding dividends after several years of research and extension.

The second important foodgrain crop in India is wheat. In 1950-51 it was shown on 9.8 million hectares (i.e.10 per cent of the area under foodgrains). However, it has I consistently improved its position particularly after the advent of the green revolution during the mid-1960s, in 2009-10, i wheal was grown on 28.5 million hectares which comes to 23.5 per cent of the area under foodgrains. Area under wheat has risen considerably in Punjab. Haryana, Uttar Pradesh and Bihar. The main cause of this expansion is the technological breakthrough achieved in wheat combined with price support and market infrastructure.

The case of coarse cereals is disappointing. The combined area under jo war, bajra and maize declined in percentage from 28.6 in 1950-51 to 20.4 in 2009-10 (expressed as a percentage of total area under foodgrains). Varietal improvements though not completely bypassed, have nevertheless been less sustainable in their case. High yielding varieties can yield three to seven times more than traditional varieties but most of them arc location specific and are susceptible to pests and diseases. Moreover, "low rate of profit, low value status and restricted demand as they are produced and eaten by poor people restrict their absorption capacity for yield-enhancing high cost inputs like chemical fertilisers. Coarse cereals also face competition from superior cereals like rice and wheat which in some areas are available at prices lower than that of coarse cereals. As a consequence of all these factors, area under coarse cereals in most of the States cither stagnated or decreased significantly.

Area under oilseeds was 10.7 million hectares in 1950-51 and 19 million hectares in 1985-86. To meet the domestic requirements of edible oils, the government had to import considerable quantities of oilseeds in early 1980s. To achieve self-sufficiency in edible oils, the government launched a number of programmes in 1980s — National Oilseeds Development Project (NODP) in 1985-86. Technology Mission on Oilseeds (TMO) in May 1986 and Oilseeds Production Thrust Programme (OPTP) in 1987-88. As a result of these programmes, area under oilseeds increased rapidly from 19 million hectares in 1985-86 to 26.2 million hectares in 1998-99. Thereafter, it started falling and in 2003-04, area under oilseeds was 23.7 million hectares. However, in 2009-10, area under oilseeds stood at 26.1 million hectares.

Coming to commercial crops we find that the area under sugarcane increased from 1.7 million hectares in 1950-51 to 2.8 million hectares in 1995-86 and 4.2 million hectares in 2009-10. Area under cotton rose from 5.9 million hectares in 1950-51 to 10.3 million hectares in 2009- 10. The area under jute and mesta increased (on all India basis) from 0.6 million hectares in 1950-51 lo 0.9 million hectares in 2009-10.

The above data show that the cropping pattern in India has undergone significant changes during the period of planning (particularly during the last four decades). First, with the introduction of new technology during the mid-1960s, area under wheat has increased both in absolute and relative (share of total cropped area) terms. Second area under coarse grains and pulses has considerably shrunk. Third, with the launching of the Technology Mission on Oilseeds during the mid-1980s, the area under oilseeds expanded significantly." In fact, from mid-1980s to early 1990s, there was a marked shift in favour of oilseeds as the pressure of edible oil imports forced a conscious decision on the part of the government to achieve self-sufficiency in edible oils by 1990. For this purpose, domestic market prices of oilseeds were substantially pushed up. India achieved a position of near self-sufficiency in edible oils by 1992-93, when its imports of edible oils came down lo almost a fraction of what they were in the mid-1980s. "During this period, about 7 million hectares of additional area came under oilseeds, partly from kharif fallows, partly from crop intensification and a substantial portion through crop substitution. The shift was largely from coarse cereals, but in some pockets even pulses and wheat gave wuy lo oilseeds.",2

With the purpose of achieving a better crop balance and tapping the export markets, increasing attention is now being focused on horticultural crops (which include fruits, vegetables, spices, floriculture, coconut, cashew, etc.). With this end in view, reliable data base for these crops is being prepared, adoption of new technology is being encouraged and incentives to promote private investment in hi-tech horticulture arc being provided. Since the shelf life of fruits and vegetables is very short (generally between 1 week to 3 months), development of horticulture is possible only if food processing is paid adequate attention. With this end in view, the Ministry of Food Processing is setting up food parks in different parts of the country. The idea behind setting up of food parks is to enable small and medium entrepreneurs find access to capital-intensive facilities, such as cold storage, warehouse, quality control laboratories, effluent treatment plants, etc.

Factors Determining Cropping Pattern

The crop-pattern of any country is due to a number of factors which can be classified into the broad categories of natural, social, historical and economic. In addition, the government of a country can also effect changes in crop, pattern through its agricultural policy.

1. **Natural factors:** These pertain to the physical characteristics and natural endowments of a region and arc the most important factors determining its crop-pattcrn. Nature of soil, type of climate, extent of rainfall, etc., wi|| determine the basic crop-pattern of a region over a period of lime. For example, in areas having sufficient rainfall and waterlogging the most appropriate crop *i%* rica since il can withstand water. This explains the cultivation of rice in West Bengal. In areas having low rainfall and small availability of water supply, the choice will naturally fall upon jowar and bajra which require small quantity of water. Therefore, in Rajasthan and rain deficient areas in Uttar Pradesh, the basic crops are jowar and bajra. Similarly, the soil of the Indo-Gangetic plain is suitable for the growing of wheat.
2. **Economic factors:** These pertain to prices of agricultural commodities, incomes of farmers, size of holdings, availability of agricultural inputs, nature of land tenure, etc. The importance of these factors in affecting the crop-pattern is self-evident. For example, increase in prices of a certain crop consistently for some years relative to other crops can induce the farmers to shift over to that crop. For instance, farmers growing pulses and inferior cereals like jowar. bajra and maize have been tempted

to shift over to the production of wheat in recent yen" on account of price factors and also on account of a higher productivity-potential of new high yielding varieties of wheat. The size of farm holdings also affects the crop-pattern. Small farmers give first priority to food crops beaux they are more interested in fulfilling their food requirements in the first instance. As against this, large farmer with substantial holdings may tend to devote a part of their land for growing cash crops. Availability of agricultural inputs like seeds, fertilisers, irrigation, etc. also affects the crop, pattern to some extent.

3. **Historical factors:** In certain areas certain crops are grown by sheer accident or necessity and then that cropping pattern is maintained through years. Historical pattern of land tenure also plays its role. If the land i& divided into a number of small plots with ownership vested in numerous small and marginal farmers (as under ryotwari the tendency will be to grow food crops. As against this if ownership of land is vested in large landowners (as under zamindari) the tendency will be to produce more c crops.
4. **Social factors:** Social environment, customs, traditions, outlook towards material things, etc. also influence crop-pattern to some extent. For example, in the pre-Independence period, the outlook of a majority of farmers was very narrow and they were bound by traditions. Therefore, the same crop-pattern was continued to be adopted by successive generations. After Independence, gradual changes in social awareness and social consciousness are emerging which are. in turn, making farmers more and more responsive to price changes and productivity possibilities of different crops.
5. **Government policy:** Policies of the government relating to different crops, exports, taxes, subsidies, supplies of inputs, availability of credit, etc., can affect the cropping pattern in a significant way. In the pre-Independence period, government policy had a very restricted scope to play in the agricultural sector and cropping pattern was determined exclusively by other factors. However, after Independence the policies of expansion of irrigation facilities, determination of agricultural prices like procurement prices, support prices and a host of other policies have all contributed to changing crop-pattern. Adoption of high-yielding varieties of seeds in selected areas of the country with a package of inputs and incentives has contributed crucially in encouraging the farmers of some regions to switch over to wheat.

GREEN REVOLUTION

A team of experts sponsored by the Ford Foundation was invited by the Government of India in the latter half of the Second Five Year Plan to suggest ways and means increase agricultural production and productivity, necessity arose out of the need to increase agricultural production in the face of continuing stagnation of production on the one hand, and rapidly increasing demand on the other. The team submitted its report entitled *India's Food Crisis and Steps to Meet It* in April 1959. This report suggested intensive efforts for increasing agricultural production and productivity in *selected regions of* the country with stress on modern inputs, especially fertiliser, credit, marketing facilities, etc. On the basis of the recommendations of this team, the government introduced an intensive development programme in seven districts selected from seven States in 1960 and this programme was named Intensive Area Development Programme (IADP). A district selected under IADP was required to posses qualities such as assured water supply, minimum hazards (like drainage problem, acute soil conservation problem, well developed village institutions and maximum potential for increasing agricultural production within a short span of time. The seven districts selected were West Godavari in Andhra Pradesh, Shahabad in Bihar, Raipur in Madhya Pradesh, Thanjavur in Tamil Nadu. Ludhiam in Punjj Aligarh in Uttar Pradesh and Pali in Rajasthan — the first four were selected for rice, the next two for wheat and last one for millets. This programme was later extended to remaining States also by selecting one district from each Stale for intensive development. In October 1965, the net was widened and 114 districts (out of 325) were selected for intensive development and the programme labelled as Intensive Agricultural Areas Programme (IAAP).

The period of mid-1960s was very significant from] the point of view of agriculture. New HYV seeds of wheat were developed in Mexico by Prof. *Norman* Borlaug and his associates and adopted by a number of countries. As a result of these high-yielding vanities, production of wheat per hectare rose to the high-level of 5000 to 6000 kg in Mexico in 1965. Taiwan also recorded similar increases. These high-yielding varieties of seeds required proper irrigation facilities and extensive use of fertilisers, pesticides and insecticides. Accordingly, they had to be introduced in the form of a package programme. Because of the promise of increasing agricultural production and productivity held by the new varieties of seeds, countries of South and South-east Asia started adopting them on an extensive scale. This new 'agricultural strategy' was put into practice for the first time in India in the kharif season of1966 and was termed High- Yielding Varieties Programme (IIYVP). This programme was introduced in the form of a package programme since it depended crucially on regular and adequate irrigation, fertilisers, high-yielding varieties of seed, pesticides and insecticides. Initially it was implemented in a total area of 1.89 million hectares. On the eve of the Fourth Plan, the coverage was estimated to be 9.2 million hectares. In 1998-99, total area under HYVP was 78.4 million hectares. This was 62.0 per cent of the total area under foodgrains (data for later years arc not available).

AGRICULTURAL FINANCE

Credit needs of the farmers can be examined from two different angles — (i) on the basis of time, and (ii) on the basis of purpose.

1) **On the basis of time**: Agricultural credit needs of the farmers can be classified into three categories on the basis of time — (i) short-term, (ii), medium-term, and (iii) long-term**.** **Short-term loans** are required for the purchase of seeds, fertilisers, pesticides, feeds and fodder of livestock, marketing of agricultural produce, payment of wages of hired labour, litigation, and a variety of consumption and unproductive purposes. The period of such loans is less than 15 months. Main agencies for granting of short-term loans are the moneylenders and cooperative societies. **Medium-term loans** are generally obtained for the purchase of cattle, small agricultural implements, repair and construction of wells, etc. The period of such loans extends from 15 months to 5 years These loans are generally provided by moneylenders, relatives of farmers, cooperative societies and commercial banks**.** **Long-term loans** are i for effecting permanent improvements on land, digging tube wells, purchase of larger agricultural implements and machinery like tractors, harvesters, etc. and repayment old debts. The period of such loans extends beyond 5 years. Such loans are normally taken from Primary Cooperative Agricultural and Rural Development Banks (PCARDRs).

2) **On the basis of purpose**: Agricultural credit needs of the farmers can be classified on the basis of purpose into the following categories

A .productive, B. consul needs, and C. unproductive. Under productive can include all credit require menu which directly agricultural productivity. Farmers need loans for the purchase of seeds, fertilisers, manures, agricultural implements, livestock, digging and repair of wells and tube wells, payment of wages, effecting permanent improvements on marketing of agricultural produce, etc. Repayment of these loans is generally not difficult because the very process of production generally creates the where with else for repayment. Farmers often require loans for consumption as well. Between the moment of marketing of agricultural produce and harvesting of the next crop there is a long interval of time and most of the farmers do not have sufficient income to sustain them through this period. Therefore, they have to take loans for meeting their consumption needs. In the time of droughts or floods, the crop is considerably damaged and farmers, who otherwise avoid taking loans consumption, have also to incur such loans. Institutional credit agencies do not provide loans for consumption purposes. Accordingly, farmers are forced to fall back upon moneylenders and mahajans to meet such requirements. In addition to consumption, farmers also require loans a multiplicity of other unproductive purposes such litigation, performance of marriages, social ceremonies on the birth or death of a family member, religious functions, festivals etc. Since institutional agencies do not grant credit for such unproductive purposes, farmers have to seek assistance from moneylenders and mahajans. It is very difficult to repay such loans because they do contribute to the productivity of farmer.

SOURCES OF AGRICULTURAL FINANCE

Sources of agricultural finance can be divided into two categories:

1) Non-institutional
2) Institutional sources.

1) The non-institutional sources are the following

a) Moneylenders
b) Relatives
c) Traders
d) commission agents
e) Landlords.

2) **Institutional sources** comprise the cooperatives, Scheduled Commercial Banks and Regional Rural Banks (RRBs). As far as c**o**operatives are concerned, the Primary Agricultural Credit Societies (PACSs) provide mainly short and medium-term loans and PCARDBs long-term loans to agriculture. The commercial banks, including RRBs, provide both short and medium-term loans for agriculture and allied activities. The National Bank for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agricultural credit and provides refinance assistance to the agencies mentioned above. The Reserve Bank of India as the central bank of the country plays a crucial role in this sphere by giving overall direction to rural credit and financial support to NABARD for its operations.

INSTITUTIONAL SOURCES OF AGRICULTURAL FINANCE

1. COOPERATIVE CREDIT SOCIETIES

History of cooperative credit is very old in India. In fact, the cooperative movement was initiated in 1904 through the establishment of cooperative credit societies. These societies were organised to relieve the indebtedness of rural people and promote thrift.

Organisation of Cooperatives

The rural cooperative credit institutions in India have been organised into short-term and long-term structures. The short-term cooperative credit structure is based on a three-tier structure, except the States in the north-east region. At the lowest tier are the Primary Agricultural Credit Societies (PACSs). These are organised at the village level. At the second tier arc the District Central Cooperative Banks (DCCBs) organised at the district level. At the third and uppermost tier arc the State Cooperative Banks (StCBs) organised at the State level. As far as the village level PACSs are concerned, they can be formed by any ten or more than ten persons. These societies generally advance loans only for productive purposes. The repaying capacity of the individual is (aken into account while advancing such loans. The DCCBs are of two types — cooperative banking union and mixed central cooperative banks. Membership of the former is open only to cooperative societies, while membership of the latter is open to both, individuals and Cooperative societies. The chief task of the central Cooperative banks is to advance loans to the PACSs in times of need so that they can fulfil the requirements of farmers. The StCB. in turn, advances loans to the DCCBs in order to augment their capacity to provide loans to the village level PACSs. It also coordinates and regulates the working of DCCBs. It also provides the link between the Reserve Bank of India and the money market on the one hand and lower levels of cooperative structure on the other.

In addition to their short-term credit requirements, farmers also require long-term credit for (i), effecting permanent improvements in land (for example, making wasteland fit for cultivation, digging of wells or tube wells etc.) (ii) Purchasing agricultural implements; and (iii) repaying old debts. To cater to these requirements, long-term credit cooperatives have been set up. These are organised at two levels. These differ from State to State and may be categorised into four types as: (i) the unitary structure in which State Cooperative Agricultural and Rural Development Banks (SCARDBs) operate at the State level through their branches and have direct membership of individuals; (ii) the federal structure in which Primary Cooperative Agricultural and Rural Development Banks (PCARDBs) operate as independent units at the primary level and federate themselves into SCARDBs at the State level; (iii) the mixed structure wherein both the unitary and federal types operate in one form or another; and (iv) the integrated structure wherein no separate Agricultural and

Rural Development Banks exist and the long term credit business is undertaken by the long-term section of the StCBs concerned. The rural credit cooperative structure in India is a huge institutional structure comprising 31 StCBs, 370 DCCBs and 95,633 PACSs at the grass root level in the short-term credit structure and 20 SCARDBs and 697 PCARDBs in the long-term credit structure as at end-March 2010.

However, the density of network of rural cooperative credit institutions shows marked regional variations. As far as the short-term cooperative credit structure is concerned, the number of villages per PACS varies from one in Kerala to 29 in Assam, with all-India average being 7. As far as the long-term cooperative credit structure is concerned, the number of villages per branch ranges from 25 in Kerala to 2,122 in Assam. At the all-India level, there are 410 villages per branch.

2. COMMERCIAL BANKS AND RURAL CREDIT

For a long period of lime, the share of commercial banks in rural credit was meagre. For instance, it was only 0.9 per cent in 1951-52 and 0.7 per cent in 1961-62. The insignificant participation of commercial banks in rural credit in India is partly explained by the subsistence nature of agriculture and its unorganised, individualistic functioning. Moreover, the heavy dependence of agriculture on monsoons makes it an uncertain and risky venture. As against this, the industrial sector is relatively more organised and less dependent on natural factors. Consequently, the commercial banks tended to concentrate on the industrial sector and even diverted the funds mobilised from rural areas to meet the demand for credit of the industrial sector.

It was partly to remedy this state of affairs that 14 major commercial banks were nationalised in 1969. This was followed by the nationalisation of 6 more banks in 1980. After nationalisation, the banks opened a large number of branches in rural areas and have increased their advances to these areas considerably. In June 1969, out of the total of 8,262 branches of commercial banks in India. 1.832 (i.e 22.2 per cent) were in rural areas. As at end June 2010, the number of total branches had shot up to 85,636. Of this, 32,62 (i.e 38.1 per cent) were in rural areas. This shows that while the total number of branches increased by about eight times, the total number of rural branches increased by almost seventeen times. The advances from banks to agriculture have also grown by leaps and bounds. For instance, advances to agriculture (amount outstanding) aggregated only Rs 162 crore in June 1969. As at end-March 2010, this had risen to Rs 4,16,133 crore accounting for 13.7 per cent of total non-food gross bank credit. In 2008- 09, banks accounted for 75.8 percent of institutional credit provided for agriculture. The share of banks in institutional credit was 71.2 per cent in 2009-10 (up to December 2009).

The above data show that after nationalisation, the commercial banks have played an important role in providing rural credit. This has enabled farmers to purchase agricultural inputs and adopt new agricultural technology on an increasing scale, expand activities in the non-farm sector in rural areas, and also accelerate the pace of private agricultural investment. For example, a study by Binswanger *et al.* shows that the rapid bank expansion in India increased fertiliser demand by about 23 per cent, investment level in tractors by 13 per cent, investment in pumps by 41 per cent, milk animals by 46 per cent and in draft animals by about 38 per cent. The study also notes that a 10 per cent increase in the number of commercial bank branches increases investment in animals and pump sets by between 4 to 8 per cent. The effect on tractors is 1.4 per cent." Thus, bank expansion has played a pivotal role in India's agricultural growth and modernisation in addition to freeing large number of rural people from the dutches of the moneylenders. Under the Reserve Bank's Service Area Approach to rural lending in operation since April 1989, individual bank branches are expected to serve the credit needs of 15 to 25 villages each. After carrying out surveys and preparing village-wise economic profiles, bank branches have been preparing credit plans for the villages in their service areas. Block level bankers' committees have been constituted for coordination among credit institutions and developmental agencies and for monitoring the implementation of the credit plans. Each bank has also been preparing Special Agricultural Credit Plan (SACP), segregated into quarterly targets, which is monitored by the Reserve Bank of India.

3. REGIONAL RURAL BANKS

The Working Group on Rural Banks (1975) recommended the establishment of Regional Rural Banks (RRBs) to supplement the efforts of the commercial banks and the cooperatives in extending credit to weaker sections of the rural community — small and marginal farmers, landless labourers, artisans and other rural residents of small means. The intention in having these new banks was that there should, in the Indian context, be an institutional device which combined the local feel and familiarity with the rural problems which the Cooperatives possessed and the degree of business organisation and modernised outlook which the commercial banks had with a view to reaching the rural poor more extensively. The Working Group rightly sensed that what the rural poor needed was a low cost, low profile credit institution into which they could walk in without trepidation. The staffs of RRBs were to be recruited from the neighbouring area and as such would have a better understanding of the local problems and the local people, their needs and their constraints.

Consequent upon the recommendations of the Working Group, 5 RRBs were initially set up in 1975. Their number later rose to 196. In 2008-09, RRBs accounted for 8.9 per cent of institutional credit provided to agriculture. This rose to 11.3 per cent in 2009-10 (up to December 2009).

3. NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

The most important development in the field of rural credit has been the setting up of the National Bank for Agriculture and Rural Development (NABARD) in July 1982. It took over from Reserve Bank of India all the functions that the latter performed in the field of rural credit. Designed specifically as an organisational device for providing undivided attention forceful direction and pointed focus, to the credit problems of the rural sector. NABARD is now the apex bank for rural credit.

Functions of NABARD

NABARD was established as a development bank to perform the following functions:

1. To serve as an apex financing agency for the institutions providing investment and production credit for promoting various developmental activities in rural areas;

2. To take measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions and training of personnel;

3. To coordinate the rural financing activities of all institutions engaged in developmental work at the field level and liaison with the Government of India, the State Governments, the Reserve Bank and other national level institutions concerned with policy formulation; and

4. To undertake monitoring and evaluation of projects refinanced by it.

NABARD's refinance is available to State cooperative agriculture and rural development banks (SCARDBs), State cooperative banks (StCBs), regional rural banks (RRBs), commercial banks and other financial institutions approved by the Reserve Bank, while the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or cooperative societies. Production credit is generally extended to individuals.

AGRICULTURAL MARKETING IN INDIA

For a long period of time Indian agriculture was mostly in the nature of "subsistence farming.' The farmer sold only a small pan of his produce to pay off rents, debts and meet his other requirements. Such sale was usually done immediately after harvesting of crops since there were no storing facilities. A considerable part of the total produce was sold by the farmers to the village traders and moneylenders often at prices considerably lower than the market prices. The farmers who took their produce to the *niandies* (wholesale markets) also faced a number of problems as they were confronted with powerful and organised traders. In *niandies.* business was carried out by *arhatiyas* with the help of brokers, who were the agents of *arhatiyas.* In fact, there was a large chain of middlemen in the agricultural marketing system like village traders, *kulcha arhatiyas.* pucca *arhatiyas,* brokers, wholesale, retailers, moneylenders, etc. As a result, the share of farmers in the price of agricultural produce was reduced substantially. For instance, a study by D.S. Sidhu revealed that farmers obtained only about 53 per cent of the price of rice. 31 per cent being the share of middlemen (the remaining 16 per cent being the marketing cost). In the case of vegetables and fruits, the share of farmers was even less — 39 per cent in the former case and 34 per cent in the latter. The share of middlemen in the case of vegetables was 29.5 per cent and in the case of fruits was 46.5 per cent." *Arhatiyas* and brokers, taking advantage of the ignorance and illiteracy of the farmers, used unfair means to cheat them. The farmers were required to pay *arhat* to the *arhatiyas. tulaii* for weighing the produce, *palledari* to unload the bullock- carts and for doing other miscellaneous types of allied works, *garda* for impurities in the produce, and a number of other undefined and unspecified charges. These charges often varied from person to person. Another malpractice in the *mandies* related to the use of wrong weights and measures.

COOPERATIVE MARKETING

The small and marginal farmers continue to sell a major part of their produce to moneylenders to meet their credit needs and these moneylenders offer them very low prices. Therefore, it is essential to form cooperatives of the small and marginal farmers to enable them to obtain fair price for their produce. The advantages that cooperative marketing can confer on the farmer are multifarious, some of which are listed below:

1. Increases bargaining strength of the farmers.

Many of the defects of the present agricultural marketing system arise because often one ignorant and illiterate farmer (as an individual) has to face well-organised mass of clever intermediaries. If the farmers join hands and form a Cooperative, naturally they will be less prone to exploitation and malpractices. Instead of marketing their produce separately, they will market it together through one agency. This will increase their bargaining strength *vis-a-vis* merchants and intermediaries.

2. **Direct dealings with final buyers**. In certain cases, the cooperatives can altogether skip the intermediaries and enter into direct relations with the final buyers. This practice will eliminate exploiters and ensure fair prices to both the producers and the consumers.

3. **Provision of credit.** The marketing cooperative societies provide credit to the farmers to save them from the necessity of selling their produce immediately after harvesting. This ensures better returns to the farmers.

4. ***Easier and cheaper transport.*** Bulk transport of agricultural produce by the societies is often easier and cheaper. Sometimes the societies have their own means of transport. This further reduces cost and botheration of transporting produce to the market.

5. ***Storage facilities.*** The cooperative marketing societies generally have storage facilities. Thus, the farmers can wait for better prices; also there is no danger to their crop from rains, rodents and thefts.

6. ***Grading and standardisation.*** This task can be done more easily for a cooperative agency than for an individual farmer. For this purpose they can seek assistance from the government or can even evolve their own grading arrangements.

7. ***Market intelligence.*** The cooperatives can arrange to obtain data on market prices, demand and supply and other related information from the markets on a regular basis and can plan their activities accordingly.

8. ***Influencing market prices.*** While previously the market prices were determined by the intermediaries and merchants and the helpless farmers were mere spectators forced to accept whatever was offered to them, the cooperative societies have changed the entire complexion of the game. Wherever strong marketing cooperatives are operative they have bargained for, and have achieved, belter prices for agricultural produce.

9. ***Provision of inputs and consumer goods.*** The Cooperative marketing societies can easily arrange for bulk purchase of agricultural inputs like seeds, manures, fertilisers, pesticides, etc. and consumer goods at relatively lower prices and can then distribute them to the members.

10. ***Processing of agricultural produce.*** The Cooperative societies can undertake processing activities like crushing oilseeds, ginning and pressing of cotton, etc.

In addition to all these advantages, the cooperative marketing system can arouse the spirit of self-confidence and collective action in the farmers without which no programme of agricultural development, howsoever well conceived and implemented, holds much promise of success. They can help in enlarging the marketable surplus of agricultural produce and can even influence the crop-pattern through proper planning.

NOTE ON AGRICULTURAL SUBSIDIES

The issue of agricultural subsidies is a highly politically sensitive issue and arouses strong passions both among the supporters of such subsidies and the opponents of these subsidies. The supporters have argued that food subsidy in India is essential to maintain and sustain the food security system and ensure a safety net for the poor. On the other hand, subsidies on agricultural inputs such as irrigation, power and fertilisers are necessary to enable the poor and marginal farmers to have access to them. If agricultural inputs are no« subsidised, the poor farmers will not be able to use them and this will lead to a decline in their income and productivity levels. On the other hand, the opponents have argued that the magnitude of agricultural subsidies has risen to very high levels in India and is now fiscally unsustainable. Not only this, it is argued that the benefit of subsidies on agricultural inputs are mostly cornered by large farmers and the industry while small and marginal farmers fail to derive much gains. As far as food subsidy is concerned, critics argue that this policy has led to the problem of burgeoning food stocks and introduced 'imbalances' in crop structure as such subsidy is limited only to a handful of crops. Moreover, so the critics argue, continuation of agricultural subsidies is against the spirit of the AoA (Agreement of Agriculture) as adopted by the WTO and in any case, such subsidies have to be reduced in accordance with the commitments made by the member countries to the WTO.

FOOD SECURITY

‘Food security implies access by all people at all times to sufficient quantities of food to lead an active and healthy life’. .As noted by P.V. Srinivasan, this requires not just adequate supply of food at the aggregate level but also enough purchasing capacity with the individual/ household to demand adequate levels of food. As far as the question of ‘adequate supply' is concerned, it involves two dimensions: *(i)* the quantitative dimension (in the sense that the overall food availability in the economy should be sufficient to meet the demand), and (ii) the qualitative dimension (in the sense that the nutritional requirements of the population are properly looked after). As far as the question of 'enough purchasing capacity* is concerned, it involves the introduction of employment generation programmes so that the income and purchasing power of the people increases. To tackle the quantitative and qualitative aspects of the food security problem, the Government of India has relied on the following three food-based safety nets: *(1)* public distribution system (PDS). *(2)* Integrated child development services (ICDS) and (3) mid-day meals programme (MDM).

The Nature of the Problem

The Quantitative Aspect.

Because of chronic food shortages that the country faced in the years following Independence, the focus of food policy was to achieve self- sufficiency. As stated in 21 on 'Agricultural Inputs and Green Revolution.' the period after the Third Plan has been marked by rapid strides in foodgrains production (particularly wheat and. in recent years, rice as well). This has enabled the economy to overcome the problems of foodgrains shortages and build up large stocks of foodgrains to counter any scarcity conditions. In fact, as noted by R. Radhakrishna, India achieved self-sufficiency in foodgrains in the 1970s and has sustained it since then. It improved its capacity to cope with year-to-year fluctuations in food production by building up large buffer stocks through the agency of FCI (Food Corporation of India) and supplying these stocks to the people through the PDS. During some of the recent years, the buffer stocks considerably exceeded the minimum norms causing the problem of 'excess stocks'. In January 2010, the central pool had wheat stocks of 23.1 million tonnes and nee stocks of 24.4 million tonnes making for a total of 47.S million tonnes (compared with 35.8 million tonnes in January 2009). The stocks of both the grains were much higher over the buffer stock norm for the period — 8.2 million tonnes for wheat and 11.8 million tonnes for nee. The storage cost of one tonne of grain every month has been estimated to be Rs 35.80. This means the government was spending Rs 170 crore every month on the storage of 47.5 million tonnes of grains.

While the foodgrains stock position thus looks satisfactory at present, there are some issues of concern. Analysts point out that while population growth and shift in food habits away from coarse grains with the rise in incomes will push up the consumption of wheat considerably in years to come.

The Qualitative Aspects

Even more worrisome is the qualitative aspect of the problem as the following facts clearly bring out:'

1. According to the Global Hunger Index 2010, released in October 2010. India ranks an abysmal 67 in a group of 84 developing countries — way below neighbouring countries like China (rank 9) and Pakistan (rank 52). Only Bangladesh has worse levels of hunger than India in South Asia. Even Nepal ranks higher at 56 while Sri Lanka's rank in 39.

2. According to the World Food Programme, nearly 50 per cent of the world's hungry live in India.
3. About 35 per cent of India's population — over 350 million is food-insecure, consuming less than 80 per cent of the minimum energy requirement.
4. Nearly 9 out of 10 pregnant women between 15 and 49 years are malnourished and anemic.
5. Anemia in pregnant women causes 20 per cent of infant mortality.
6. 46 percent of children under five were malnourished in 2006. The rate has improved by just one per cent in a decade but is still worse than the least developed countries here the figure is 35 per cent.
7. Of the 9.7 million total deaths of children under five worldwide. 2.1 million deaths were in India in 2006. In other words. India contributed 21.6 per cent of total deaths in the world below 5-ycars group.
8. Malnutrition accounts for 50 per cent of under- live deaths.
9. Of the 19 million infants with low birth weight in the developing world. 8.3 million came from India, where underweight prevalence rate is 43 per cent.
10. About one-third of underweight children under five live in India (54.6 million out of 156 million): Madhya Pradesh. Bihar. Jharkhand. Gujarat, Orissa. Chhattisgarh, Meghalaya and Uttar Pradesh are the worst offenders.
11. Percentage of children suffering from anaemia is 77. In other words, three out of four children in India are anaemic.
12. Percentage of stunted children is 37. i.e., one out of three children has stunted growth.
13. Percentage of children not fully immunised is 51.

PUBLIC DISTRIBUTION SYSTEM IN INDIA

Let us now turn to a discussion of the PDS (Public Distribution System) in India. As stated earlier, this has been the most important food based safety net introduced by the Government of India.

Objectives and Expansion of PDS

The basic objective of the public distribution system in India is to provide essential consumer goods at cheap and subsidised prices to the consumers so as to insulate them from the impact of rising prices of these commodities and maintain the minimum nutritional status of our population. To run this system the government resorts to heavy purchases of a part of the marketable surplus with traders/millers and producers at procurement prices. The grain (mainly wheat and rice) thus procured, is used for distribution to the consumers through a network of ration/ fair price shops and/or for building up buffer stocks. In addition to foodgrains, PDS has also been used in India for the distribution of edible oils, sugar, coal, kerosene and cloth. The most important items covered under PDS in India have been rice, wheat, sugar and kerosene. Coarse grains (jowar. bajra, maize etc.) virtually do not figure in the PDS as their combined sales have amounted to less than 1 per cent of the total PDS sales. Pulses, which constitute an important source of protein for the poor, have had a share of less than 0.2 per cent in total PDS sales. PDS in India covers the whole population as no means of direct targeting are employed. The criterion is to issue ration cards to all those households that have proper registered residential addresses. The number of fair price shops (FPS) ha# increased over the years from 0.47 lakh at the end of 1960 to 3.12 lakh in 1984 and is presently 4.74 lakh. PDS distributes commodities worth more than 130,000 crore annually to about 160 million families and is perhaps the largest distribution network of its kind in the world.

The quantities supplied through the PDS outlets remained below 5 million tonnes upto 1963, and they had gone up to 14 million tonnes by mid-1960s. Throughout the 1970s the quantities remained around 10 million tonnes, and during the 1980s, the average was around 16 million tonnes. The off take from PDS outlets reached a peak level of 19.0 million tonnes in 1991-92 but, thereafter, tended to decline. In fact, the gap between allocation and offtake from the PDS increased considerably both for rice and wheat but more particularly for wheat. In 1991-92, the combined allocation of rice and wheat under PDS was 21.92 million tonnes while offtake was 19.0 million tonnes. Thus, off take was 86.7 per cent of allocation. In 2001-02, against the combined allocation of rice and wheat of 30.37 million tonnes under PDS, the offtake was merely 13.84 million tonnes. Thus, off take was only 45.6 per cent of allocation. This reduced off take became a serious cause of concern as unsold stocks in the PDS led to heavy handling and storage costs for the government agencies.

The wide gap between allocation and off take from the PDS noticed in 1990s was basically due to the reason that the issue prices of rice and wheat had been raised substantially with the result that the gap between the open market price and the price charged for supplies through PDS (the issue price) got reduced considerably. For example, the issue price of rice and wheat was revised four times between 1990 and 1994 with the result that the 1994 price level was more than double the price in 1989 for rice and nearly doubles the 1989 level for superfine rice and wheat. In fact, the differential between market price and PDS price of wheat came down from 47.44 per cent in January 1991 to merely 8.21 per cent in February 1994 in Delhi." The central issue price (CIP) fixed by the government in February 1994 remained unaltered upto May 1997 when a dual pricing structure was introduced under the Targeted Public Distribution System (TPDS). In this system, issue prices for families below the poverty line (BPL) were fixed at 50 per cent of the economic cost while issue prices for families above the poverty line (APL) were fixed equal to the economic cost. Since the issue prices for APL families were very close to the market price, there was no incentive for them to buy from the PDS. Consequently, foodgrain stocks with the government increased considerably. To tackle this problem, the government had to reduce the issue price for APL families by 30 per cent in July 2001. Thus, issue price for APL families was reduced to 70 per cent of economic cost.

TARGETED PUBLIC DISTRIBUTION SYSTEM (TPDS)

With a view to reducing ihc burden of food subsidy and targeting it better to the really needy people, the Government of India adopted the Targeted Public Distribution System (TPDS) from June 1, 1997. TPDS aims at providing foodgrains to people below the poverty line at highly subsidised prices from the PDS and foodgrains to people above the poverty line at much higher prices. Thus, the TPDS adopted by the Government of India maintains the universal character of the PDS but adds a special focus on the people below the poverty line (known as BPL).

The key features of TPDS as adopted by the Government of India are as follows:

1.**Targeting**. The most distinctive feature of the TPDS in relation to the previous policy is the introduction of targeting by dividing the entire population into below poverty line (BPL) and above poverty line (APL) categories, based on the poverty line defined by the Planning Commission. The maximum income level for the population to be covered under BPL has kept at Rs 15,000 per annum. Initially a quantity of 10 kg of foodgrains per h^sehold per month was approved. Later on, this was raised to 25 kg per month. On April 1 2002, the government raised this further to 35 kg per household per month.

2. **Dual (multiple) prices**. The second distinguishing feature is that the PDS now has dual central issue prices: prices for BPL consumers and prices for APL consumers. A third price, introduced in 2001, is for beneficiaries of the Antyodaya Anna Yojana (AAY). In March 2000, a major policy change occurred when it was announced in the Budget that

central issue prices — that is. prices at which the Food Corporation of India sells grains for the PDS to Stale governments will be set at 50 percent of the 'economic cost of FCI for BPL families and at 100 per cent of the 'economic cost' for APL families. Because of the high prices for APL families, many of them stopped purchasing from PDS resulting in heavy build-up of stocks with FCI. Consequently, prices for APL families were reduced. The Central issue prices (unchanged since July I, 2002) are as follows: (i) Rs6.10 per kg of wheat and Rs 8.30 per kg of rice for APL families; (ii) Rs4.15 per kg of wheat and Rs 5.65 per kg of rice for BPL families; and (iii) RS 2 per kg of wheat and ? 3 per kg of rice for families covered under AAY. Presently 2.43 crore poorest of the poor families in the BPL category arc covered under AAY.

3. Centre-State Control. A third important Mature of the TPDS is that it has changed centre-state responsibilities with respect to entitlements and allocations to the PDS. PDS was and is designed and managed by State governments, and State governments differ with respect to entitlements, the commodities offered, the retail price (State issue price) and so on. In the past, the State governments demanded a certain allocation from the Central pool, and based on certain factors, most importantly, past utilisation and the requirements of statutory rationing, the Central government allocated grain and other commodities to States for their public distribution systems. With the TPDS now, the size of the BPL population and the entitlement for the BPL population are decided by the Central Government. And the allocation for APL families or additional allocations for BPL and APL families are decided somewhat arbitrarily based on past utilisation and demands from States and. according to the TPDS guidelines, are meant to be transitory.

Total number of families covered under BPL and AA Y is presently 6.52 crore. Allocations of foodgrains arc made to these families at the rate of 35 kg per family per month. The allocation for APL families in made at the rate of 10 kg per family per month (raised to 15 kg per family per month from August 2010 for six months). During the year 2010-11, the Government released a quantity of 470.80 lakh tonnes under the TPDS covering AAY BPL and APL families. In addition, 5.90 lakh tonnes of foodgrains was released to States as calamity relief, etc ratio of 90 : 10 for all components including the SNP for the north-east. This ratio will be 50:50 for the SNP and 90:10 for all other components for all Stales other than north-east. Alongside gradual expansion of the scheme, its budgetary allocation has also increased. The Annual Plan Outlay for 2010-11 for the ICDS was Rs 8700 crore against which an amount of Rs 6.989 crore was released to States/ Union Territories up to December 31, 2010. Of the total 7.073 sanctioned ICDS projects.

6.719 were operational as on December 31. 2010. Of the total 13.67 lakh sanctioned AWCs. 12.42 lakh were operational as on December 31. 2010.

Mid-Day Meal Scheme

The national programme of nutritional support to primary education, commonly known as the mid-day meal (MDM) scheme launched in 1995 is a nationwide Central scheme intended to improve the enrollment and regular attendance and reduce dropout in schools. It is also intended to improve the nutritional status of primary school children. MDM is the world's largest school feeling programme reaching out to about 12 crore children in over 12.65 lakh schools (EGS) centres across the country. The scheme is being implemented in all States and Union Territories. In order to improve the quality of meal and ensure better infrastructural facilities, the scheme has been revised many times over the years. As envisaged in September 2004, the scheme aimed at providing cooked mid-day meal with 300 calories and 8-12 grams of protein to all children studying in classes I-IV in Government and aided schools and alternate and innovative education centres. In addition to free supply of foodgrains, the scheme provided Central Assistance for (i) cooking cost at the rate of ? 1 per child per school day, (fj) transport subsidy of 7 100 per quintal for special category States and Rs 76 per quintal for other States, (iii) management, monitoring and evaluation costs at the rate of 2 per cent of the cost of foodgrains, transport subsidy and cooking assistance, and (iv) provision of midday meal during summer vacation in drought affected areas. In July 2006, the scheme was revised and assistance for cooking cost was raised to Rs 1.80 per child per school day for north-eastern States and to Rs 1.50 per child per school day for other States. In October 2007, the scheme was extended to cover children in upper primary (classes VI to VIII) initially in 3.479 Educationally Backward Blocks (EBBs). From 2008-09, i.e., with effect from April, 2008 the scheme covers all children studying in Government, loca Body and Government-aided primary and upper primary schools and the alternate and innovative education centres including Madersa and Maqtabs supported under SSA (Sarva Shiksha Abhiyan) of all areas across the country.

LAND REFORMS IN INDIA

SYSTEMS OF LAND TENURE IN PRE- INDEPENDENT INDIA

At the time of Independence, there were three types of land tenure systems prevailing in the country — the zamindari system, the mahalwari system, and the ryotwari system. The basic difference in these systems was regarding the mode of payment of land revenue. In the zamindari system, the land revenue was collected from the farmers by the zamindars; in the mahalwari system by the village headman on behalf of the whole village; while in the ryotwari system the land revenue was paid to the State directly by the farmers. In all the three systems the usual practice adopted was to get the land cultivated by tenants.

Tenants, themselves, were of the following three types: (I) Occupancy tenants, (2) Tenants-at-will, and (3) Sub-tenants. Occupancy tenants enjoyed permanent and heritable rights on land. They had security of tenure and could claim compensation from the landlord for any improvement effected on the land. As against this, tenants- at-will did not have security of tenure and could be evicted from land whenever the landlord so desired. The position of sub-tenants was also similar. The only difference between them and tenants-at-will was that whereas the latter were appointed by the landlords themselves, sub-tenants were appointed by the occupancy tenants.

In addition to these classes of people, a big class of agricultural labourers existed side by side. These people had no land whatsoever and worked on the land of others on wages.

Zamindari System

This system was created by the East India Company when in 1793, Lord Cornwallis entered into permanent settlement' with landlords with a view to increasing the revenue of the company. Under the settlement, the landlords (known as zamindars) were declared full proprietors of large areas of land. In return, the task of collecting rent from the farmers was entrusted to them. Thus the zamindars were to function as intermediaries between the cultivators and the State. The share of the government in total rent collected by the zamindars was kept at 10/1 Ith, the balance going to the zamindars as remuneration. At the time of Independence, this system was prevalent in West Bengal, Bihar. Orissa. Uttar Pradesh. Andhra Pradesh and Madhya Pradesh.

The zamindari system suffered from a number of defects. It created a unique agrarian structure in the country side which conferred the right of sharing the produce of land without participating personally in the productive process. The system itself was based on exploitation as it conferred unlimited rights on the zamindars to extract as much rent as they wished. According to Bhawani Sen, approximately 25 per cent of the produce was taken away by the intermediaries in the form of rent. This would mean that out of the income of Rs 4,800 crore from agriculture in 1949-50, the share of intermediaries was as high as Rs. 1,200 crore. The grabbing of such a high proportion of income by a parasitic class was not only socially unjust but also highly detrimental to capital formation and economic development.

The actual cultivator was left with no surplus to invest in belter implements, improved seeds or fertilisers and neither was there any incentive for him to increase agricultural production and productivity. The tillers showed no interest in modernisation of agriculture or in prevention of such recognised evils as fragmentation. Consequently, agricultural production was held down and from the 1880s to the 1940s it rose so slowly as to amount to virtual stagnation.3

Not only this,the records of rights in land were not systematically maintained in most areas governed by zamindari. This made it difficult to mortgage and/or sell land. As a result, credit institutions were slow to develop in zamindari areas. Public investments in agriculture were generally less in these areas. Communal rights in pastures, forests, etc. were encroached upon and the cultivator was made to pay to gain access to these.4 In addition to excessive rents and illegal exactions, the zamindars forced peasants to do be gar and offer various gifis/nazrana. etc.

Mahalwari System

This system was introduced by William Benunck in Agra and Oudh. It was later extended to Madhya Pradesh and Punjab. In this system, the whole village was treated as a unit as far as payment of land revenue is concerned. The responsibility for collecting the land revenue and depositing it in the treasury was of the village headman (or a co-sharer appointed for the purpose). According to the Congress Land Reforms Committee the ownership of land under this system was collective. Period of 'settlement', fixation of land revenue, etc were different in different mahalwari areas.

Ryotwari System

This system was initially introduced in Tamil Nadu and was later extended to Maharashtra. Barar. East Punjab, Assam and Coorg. Under this system the responsibility of paying land revenue to the government was of the cultivator (or individual ryot) himself and there was no intermediary between him and the State. The ryot had full rights regarding sale, transfer and leasing of land and could not be evicted from the land as long as he paid the land revenue. These rights were not available to cultivators under the zamindaRI system.

The settlement of land revenue under the ryotwari system was done on a temporary basis. In Madhya Pradesh, such temporary settlement was done after every 20 years, in Bombay (Maharashtra) after every 30 years and in Madras (Tamil Nadu) and United Provinces (Uttar Pradesh) after every 40 years.Though lhe ryotwan system appears satisfactory on the face of it. yet it also developed various snags. In these ureas, moneylenders and mahajuns granted loans to cultivators by mortgaging their lands. Soon substantial portions of land slipped out of cultivators' hold and became the property of moneylenders and mahajans. The latter started giving land for cultivation on lease and soon a new zamindar class (with all its exploitative practices) sinned developing.

OBJECTIVES OF LAND REFORMS

As stated above, the zamindari system was based on exploitation. It created a parasitic class of zamindars which did not do any work on land but snatched away *whatever surplus above the minimum subsistence the cultivaton produced. The latter were forced to lead a wretched life of slavery and deprivation. Under the ryotwari and mahalwuri systems also, the practice of cultivation by tenants became widely prevalent. These tenants were also exploited in a number of ways. Particularly miserable was the condition of tenants-at-will and sub-tenants.*

It was basically to stop the exploitation of the actual tillers of the soil and pass on the ownership of land to them that land reforms were introduced in the post-lndependence period in India. The government defined (he objective! of land reforms as follows:

i. *to remove such impediments to increain agricultural production as arise from the agrarian structure inherited from the past; and*

ii. *to eliminate all forms of exploitation and social injustice within the agrarian system, to provide security for the tiller of soil and assure equality of status and opportunity to all sections of the rural population.*

Measures contemplated to achieve these objectives were as given below:

1. **Abolition of Intermediaries**
2. **Tenancy Reforms**
3. **Reorganisation of Agriculture**.

Tenancy Reforms included the following set of measures: (i) Regulation of Rent, (ii) Security of Tenure and (iii) Ownership Rights for Tenants. Reorganisation of Agriculture included the following policies: (i) Redistribution of Land, (ii) Consolidation of Holdings and (iii) Co-operative Farming.

INDIAN INDUSTRIES

SMALL-SCALE INDUSTRIES SECTOR

In 1977, units having investment of less than Rs 10 lakh were defined as small-scale industrial undertakings, while for ancillary units, the investment limit was Rs15 lakh. Units with investment of less than Rs 1 lakh were defined as tiny enterprises. In 1991 (the year in which economic reforms were initiated), the investment limit for small-scale industries was Rs 60 lakh, for ancillary units Rs 75 lakh, and for tiny enterprises Rs 5 lakh. In 2000, the investment limit for SSI (small-scale industry) was Rs 1 crore, for ancillary unit Rs 1 crore and for tiny enterprise Rs 25 lakh. Consequent to the enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the small and medium sector has been defined as micro, small and medium enterprises with effect from October 2, 2006 (the Act defined the medium enterprises for the first time). Further, separate investment limits have been prescribed for manufacturing and service enterprises. The new definition is as follows:

A: Manufacturing Enterprises

1. A micro enterprise, where the investment in plant *and machinery does not exceed Rs 25 lakh;*
2. A small enterprise, where the investment in plant *and machinery is more than Rs 25lakh but does not exceed Rs 5 crore;* and
3. *A medium enterprise, where the investment in plant and machinery is more than Rs 5 crore but does not exceed Rs 10 crore.*

B: Service Enterprises

a. *A micro enterprise, where the investment in* equipment does not exceed Rs 10 lakh;

b. *A small enterprise, where the investment in* equipment is more than Rs 10 lakh but does not exceed Rs 2 crore; *and*

c. A medium enterprise, where the investment in equipment is more than Rs 2 crore but does not exceed *Rs 5* crore.

THE ROLE AND PERFORMANCE OF COTTAGE AND SMALL-SCALE INDUSTRIES IN INDIAN ECONOMY

Some idea of the role of small- scale and cottage industries in India's industrial and economic development can be obtained from the discussion below:

1. **Expansion of SSI sector and its share in industrial production.** The number of units in the SSI sector stood at 109.5 lakh in 2002-03 (of this. 16.0 lakh were registered and 93.5 lakh unregistered). This number rose to 133.68 lakh in 2007-08. Output of the SSI sector in 2002-03 was Rs3.06.771 crore and this rose to Rs 5.32.979 crore in 2007- 08 (at 2001-02 prices). The rate of growth of output exceeded 12 per cent in 2005-06, 2006-07 and 2007-08. According to the Fourth Census of SSI units conducted in 2006-07 (which also included information on medium enterprises), there are about 260 lakh MSMEs (medium, small and micro enterprises) in the country and they contribute about 8 per cent of GDP and about 45 per cent of manufactured output.

2. **Employment generation**. The SSI sector employed 263.7 lakh people in 2002-03 and this number rose to 322.28 lakh people in 2007-08. If persons employed in the medium enterprises are also included, the number of people employed in the MSME sector presently stands at around 600 lakh.

Within the manufacturing *sector* itself, small and decentralised sector contributes about $4/5^{th}$ of manufacturing employment in India. Given the acute unemployment problem in India, creation of employment opportunities will depend crucially on the development of small-scale and cottage industries. This would be clear from the fact that while employment in the factory sector as a whole (large-scale, medium scale and small-scale) increased by only 2.21 per cent per annum over the period 1972 to 1987-88. employment in small-scale sector grew at the rate of 5.45 per cent per annum.-' As far as future prospects are concerned, the rural non-farm sector accounting for about 22 per cent of rural employment can play a crucial role in the further expansion of employment opportunities in the rural areas. An important constituent of this sector is the manufacturing activity consisting mainly of textile-based and agro-based products and units producing construction materials. In the urban areas employment potential seems to be the largest in the non-household, tiny sector segment of the manufacturing sector. Overall, it has been estimated that labour intensity in the micro and small enterprises sector is almost 4 times higher than the large enterprises.'

3. **Efficiency of small-scale industries.** A controversy has raged in this country over the issue of efficiency in the small-scale industries *vis-a-vis* large-scale industries. While some studies have pointed out that small-scale industries are more efficient, others point out that large-scale industrial are more efficient. One of the earliest studies on the relative efficiency of small-scale industries in India was undertaken by Dhar and Lydall. They concluded that modem small- scale industry is fairly capital intensive; that is, these units do not generate more employment per unit of capital than large-scale industry. Similar conclusions were reached by Sandesara in a study conducted for the period 1953-58. Sandesara used CMI data for 28 industries and found that, for a given volume of investment, small-scale units neither generated more employment nor produced more output compared to large-scale units. In his paper published in 1988. Bishwanath Goldar compared for 37 industries at the three-digit level the technical efficiency of small-scale and large-scale industries for the year 1976-77. He found that the SSIs (compared to the large-scale industries) generally have low labour productivity, high capital productivity, low capital intensity (measured as capital per employee) and low total factor productivity. He inferred that the modern small-sector is inefficient relative to the large sector in a large number of industries. He also found that the relative efficiency of the SSIs vanes directly with capital intensity, so that the SSIs cannot be relied upon as a source of efficient employment generation.

4. **Equitable distribution of national income**

One of the main arguments put forward in support of the small- scale and cottage industries is that they ensure a more equitable distribution of national income and wealth. This is accomplished because of the following two considerations: (i) the ownership of small-scale industries is more widespread than the ownership of large-scale industries, and (ii) they possess a much larger employment potential as compared to the large industries.

Dhar and Lydall have pointed out that this argument is wrong. According to them, workers in small-scale and village industries are unorganised and cannot fight for their rights. As such, wages paid to them are much less than the wages paid to workers in large industries (for instance, wages in small-scale industries in India arc just about half the wages paid in large-scale industries), in all countries including England. USA. West Germany. Japan and India, small industries have failed to achieve the objective of equitable distribution of income and decentralisation of economic power.

5. **Mobilisation of capital and entrepreneurial skill.**

The small-scale industries are at a distinct advantage as far as the mobilisation of capital and entrepreneurial skill is concerned. A number of entrepreneurs are spread over small towns and villages of the country. Obviously, large- scale industries cannot utilise them as effectively as the small-scale and village industries distributed over the entire length and breadth of the country. Similarly, large-scale industries cannot mobilise the savings done by people in areas far flung from the urban centres. But this task can be effectively accomplished by setting up a network of small- scale and cottage industries. In addition, a large number of other resources spread over the country can be put to an effective use by the small-scale and cottage industries. The rapid development of small-scale industries in the post- Independence period is a proof that given the necessary credit, power and technical knowledge, a large quantity of latent resources of the economy can be mobilised for purposes of industrial development.

6. **Regional dispersal of industries**.

In our discussion on industrial licensing policy in the chapter on 'Industrial Policy', we shall point towards the tendency of massive concentration of large-scale industries in the States of Maharashtra, West Bengal. Gujarat and Tamil Nadu. Thus, disparities in industrial development have increased. Even within these industrialised States, industries have tended to get concentrated in a few large cities like Mumbai, Kolkata and Chcnnai. People migrate in large numbers from villages and lower order urban centres to these centres of industrial development. This swells the population of slums and creates various social and personal problems. The whole urban environment gets polluted. As against this, the small-scale industries are mostly set up to satisfy local demand and they can be dispersed over all the State very easily. They can also effect a qualitative change in the economy of a State. The most glaring example of this phenomenon is the economy of Punjab which has more small-scale industrial units than even the industrially developed State of Maharashtra.

7. Less industrial disputes.

Supporters of small- scale industries frequently argue that large-scale industries are ridden with more industrial disputes than the small-scale industries. Because of the 'tensions' in the relations between workers of large-scale industries and the mill-owners, such industries frequently face strikes and lockouts. Against this, the small-scale industries are free from such hazards and there is consequently less loss of output. However, this viewpoint is not totally correct. In capitalistic form of production whether the unit is small or large, the mill-owner does exploit the workers. This does lead to tensions and conflicts. However, whereas the labourers working in large- scale industries are organised and resort to collective action (in the form of strike), workers in small-scale industries are not organised and have no way of expressing their resentment. Any worker who gives a vocal expression to his resentment is immediately thrown out. Therefore, apparently the relations between the employers and employees in a small-scale unit seem to be harmonious while actually they are not.

INDUSTRIAL POLICY PRIOR TO 1991

Industrial Policy Resolution, 1948

The first important industrial policy statement was made in the Industrial Policy Resolution. 1948 issued by the Government of India on April 6. 1948. The Resolution accepted the importance of both private and public sectors in the industrial economy of India. It divided the industries into the following *four* categories:

(i). Industries where Slate had a monopoly. In this category, three fields of activity were specified — arms and ammunition, atomic energy and rail transport.

(ii). **Mixed sector.** In this category, the following 6 industries were specified — coal. Iron and steel, aircraft manufacture, shipbuilding, manufacture of telephone, telegraph and wireless apparatus (excluding radio sets) and mineral oils. New undertakings in this category were to be set up by the State but existing private undertakings were allowed to continue for 10 years after which the government was to review the situation and acquire any existing undertaking after paying compensation on a fair and equitable basis.

(iii). **The field of government control**. 18 industries of national importance were included in this category. The government did not undertake the responsibility of developing these industries but considered them of such importance that their regulation and direction was necessary. Some of the industries included were — automobiles, heavy chemicals, heavy machinery, machine tools, fertilisers, electrical engineering, sugar, paper, cement, cotton and woollen textiles.

(iv). **The field of private enterprise.** All other industries (not included in the above three categories) were left open to the private sector. However, the State could take over any industry in this sector also if its progress was unsatisfactory.

The 1948 Resolution also accepted the importance of small and cottage industries as they are particularly suited for the utilisation of local resources and for creation of employment opportunities.

Industrial Policy Resolution, 1956

The 1956 Resolution laid down the following objectives for the industrial policy: (i) to accelerate the rate of growth and to speed up industrialisation; (ii) to develop heavy industries and machine making industries; (iii) to expand public sector; (iv) to reduce disparities in income and wealth; (v) to build up a large and growing cooperative sector, and (vi) to prevent monopolies and the concentration of wealth and income in the hands of a small number of individuals.

The 1956 Resolution divided the industries into the following *three* categories:

Monopoly of the State. In this category. 17 industries were included whose future development was to be the exclusive responsibility of the Slate. These were listed in Schedule-A appended to the Resolution. Of the 17 industries. 4 industries — arms and ammunition, atomic energy, railway and air transport — were to be government monopolies. In the remaining 13 industries, new units were to be established by the State but existing private units were allowed to subsist and expand. New units in the private sector could also be allowed when the national interest so required.'

Mixed sector of public and private enterprise.

In this section, 12 industries listed in Schedule B (appended to the Resolution) were included. These were: all other minerals (except minor minerals), road transport, sea transport, machine tools, ferroalloys and tool steels, basic and intermediate products required by chemical industries such as manufacture of drugs, dyestuffs and plastics, antibiotics and other essential drugs, fertilisers, synthetic rubber, chemical pulp, carbonisation of coal, and aluminium and other non-ferrous metals not included in ihe first category. In these industries. State would increasingly establish new units and increase its participation but would not deny ihe private sector opportunities to set up units or expand existing units.

Industries left for private sector.

All industries not listed in schedules 'A' or B' were included in the third category. These industries were left open to the private sector. Their development was to depend on the initiative and enterprise of the private sector, though even here the State could start any industry in which it was interested.

The 1956 Resolution emphasised the mutual dependence of public and private sectors. The only 4 industries in which private sector was not allowed to function were arms and ammunition, atomic energy, railways and air transport. In all other industries, cither the private sector was allowed to operate freely or its help could be obtained if the government deemed fit. However, the private sector was to remain subject to various government regulations and controls as specified in Industries (Development and Regulation) Act. 1951 and other related regulations.

The 1956 Resolution recognised the importance of small-scale and collage industries just as the 1948 Resolution had done. It also called for the reduction in regional imbalances and inequalities. For this purpose, it advocated that transport facilities, power and other facilities should be provided in backward regions.

As compared to the 1948 Resolution, the 1956 Resolution considerably enlarged the area of operation of the public sector as the exclusive responsibility of the State was enlarged from 6 to 17 industries (Schedule A). In addition, another category including 12 industries (Schedule B) was defined where the State could participate on an increasing scale. However, the 1956 Resolution dropped the ‘threat’ of nationalisation that the 1948 Resolution contained and the division of industries in different categories was more flexible in the former as compared to the latter. The fact is that the basic objective of both the Resolutions was the same — strengthening the mixed economy structure of the country.

NEW INDUSTRIAL POLICY, 1991

In line with the liberalisation measures announced during the 1980s, the government announced a New Industrial Policy on July 24, 1991. This new policy deregulates the industrial economy in a substantial manner. The major objectives of the new policy are "to build on the gains already made, correct the distortions or weaknesses that might have crept in. maintain a sustained growth in productivity and gainful employment, and attain international competitiveness." In pursuit of these objectives, the government announced a series of initiatives in respect of the policies relating to the following areas:

1. Industrial Licensing
2. Public Sector Policy
3. MRTP Act
4. Foreign Investment and Technology

A package for the Small and Tiny Sectors of industry was announced separately in August 1991 (already discussed in detail in Chapter 28).

Abolition of Industrial Licensing

Industrial licensing policy in India has been governed by the Industries (Development and Regulation) Act. 1951. As we have discussed above, industrial licensing policy and procedures have been liberalised considerably from time to time. Yet, the industrial licensing policy has all along been resented to by the entrepreneurs as it led to unnecessary governmental interference, delays in investment decisions and bureaucratic, red-tapism, corruption, etc. Not only this, the industrial licensing policy was also unable to achieve the objectives laid down for it by the government. On account of these considerations, and in order to liberalise the economy and to enable the entrepreneurs to make investment decisions on the basis of their own commercial judgement, the 1991 industrial policy abolished industrial licensing for all but 18 industries. The 18 industries for which licensing was kept necessary were as under — coal and lignite; petroleum (other than crude) and its distillation products; desolation and brewing of alcoholic drinks; sugar; animal fats and oils; cigars and cigarettes; asbestos and asbestos-based products; plywood and other wood-based products; raw hides and skins and leather; tanned or dressed fur skins; motor cars; paper and newsprint; electronic aeroscape and defence equipment; industrial explosives; hazardous chemicals; drugs and pharmaceuticals; entertainment electronics; and white goods (domestic refrigerators, washing machines, air-conditioners, etc.). With the passage of time, most of these industries have also been delicensed. As of now, licensing is compulsory for only 5 industries. These are alcohol, cigarettes, hazardous chemicals, electronics aeroscape and defence equipment, and industrial explosives.

In respect of delicensed industry, no approval is required from the government. However, entrepreneurs are required to file an Industrial Entrepreneur Memorandum (IEM) to the Secretariat for Industrial Approvals (SIA) provided the value of investment on plant and machinery of such unit is above Rs 10 crore.

Public Sector's Role Diluted

The 1956 Resolution had reserved 17 industries for the public sector. The 1991 industrial policy reduced this number to 8; (I) arms and ammunition. *(2)* atomic energy, *(3)* coal and lignile. *(4)* Mineral, oils ring, iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond. (6) mining of copper, lead, zink, tin, molybdenum and wolfarm, *(7)* minerals specified in the schedule (o the atomic energy (control of production and use order), 1953. and (8) rail transport. In 1993, items 5 and 6 were deleted from the reserved list. In 1998-99, items 3 and 4 were also taken out from the reserved list. On May 9, 2001, the government opened up arms and ammunition sector also to the private sector. This now leaves only 3 industries reserved exclusively for the public sector—atomic energy, minerals specified in the schedule to the atomic energy (control of production and use order) 1953, and rail transport.

MRTP Limit Goes

Under the MRTP Act, all firms with assets above a certain size (Rs 100 crore since 1985) were classified as MRTP firms. Such firms were permitted to enter selected industries only and this also on a case-by-case approval basis. In addition to control through industrial licensing, separate approvals were required by such large firms for any investment proposals. The government felt that this was having a deleterious effect on many large firms in their plans for growth and diversification. The new industrial policy therefore scrapped the threshold limit of assets in respect of MRTP and dominant undertakings. These firms will now be at par with others, and not require prior approval from the government for investment in the delicensed industries. The MRTP Act was accordingly amended. The amended Act gave more emphasis Co the prevention and control of monopolistic, restrictive and unfair trade practices so that consumers are adequately protected from such practices.

Freer Entry to Foreign Investment and Technology

As in the case of domestic industrial investment, foreign investment has also been traditionally regulated in India. In the case of both foreign technology agreements sought by Indian firms as well as foreign investment, it was necessary to obtain specific prior approval from the government for each project. It was argued that this caused undue delays and government interference and also hampered business decision-making. Therefore, the new industrial policy prepared a specified list of high technology and high- investment priority industries (listed in Annexure III) wherein automatic permission" was to be made available for direct foreign investment upto 51 per cent foreign equity. The industries in which automatic approval was granted included a wide range of industrial activities in the capital goods and metallurgical industries, entertainment electronics, food processing, and the services sectors having significant export potential. Besides, these included a number of other industries which are important for the rapid growth of the economy. The limit was subsequently raised from 51 per cent to 74 per cent and then to 100 per cent for many of these industries. Presently FDI (Foreign Direct Investment) is permitted upto 100 per cent on the automatic route in most sectors subject to sectoral rules/regulations applicable. FDI is prohibited only in the following sectors: (I) retail trading (except single brand product retailing), (2) atomic energy, (J) lottery business, and (4) gambling and betting. For details regarding steps taken to promote foreign investment and technology in the period since 1991 please refer to the chapter on 'Foreign Capital and Aid.

Industrial Sickness

Industrial sickness is defined in India as "an industrial company which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year".

According to Companies Act, 1985, a unit is defined as sick industrial company where:-

- a company is registered for not less than seven years
- It incurred cash losses for the current and preceding financial year.
- Its net worth was eroded.
- Even 50% or more of the net worth of the past 5 financial years is eroded because of accumulated losses

Causes for Industrial Sickness

The causes of industrial sickness can be classified into two. They are:

Internal causes and External Causes

Internal Causes

The major internal causes of industrial sickness are

- **Power cuts:-**
  - Lack of power Electricity support
  - Shortage in Electricity
- **Erratic supply of Inputs**
  - Shortage of raw material
  - Lack of transportation facility
  - High Price
- **Demand and Credit restraints**
  - No equal Balance of demand and supply
  - Lack of credit facility
  - Storage expenses
  - Chance of out of fashion
- **Government Policy**
  - Change in Government policy
  - Lack of government support

– High Authority to Large Units

External Causes

The major external causes of industrial sickness are

- **Fault at the planning & construction stage**
  - Wrong location Area
  - Absence of Market Analysis
  - Unbalance Capital Structure
- **Financial Problem**
  - Unable to repay
  - Lack of financial support from banks and other financial institutions
- **Defective plant and machinery**
  - Lack of technical & professional skills
  - Lack of technology
  - Lack of efficient machinery
  - High maintenance
- **Entrepreneurial Incompetence**
  - Lack of market knowledge
  - Lack of efficient professional skills
  - Lack of innovation
- **Management problem**
  - Inefficiency of management
  - Lack of expertise
- **Labor problems**
  - Lack of inefficient labor
  - Lack of coordination in work
  - Unsatisfied Labor

Consequences of industrial sickness

The major consequences of industrial sickness are

- Set-back to employment
- Fear to industrial unrest
- Wastage of resources
- Adverse impact on related units
- Adverse effect on investors &entrepreneurs
- Losses to banks and financial institutions
- Loss of revenue to government

Remedial Measures

Steps taken by commercial banks:-

- ➢ provide working capital assistance
- ➢ Recovery of interest at reduced rates
- ➢ Suitable moratorium on payment of interest
- ➢ Freezing a portion of outstanding in the accounts
- ➢ No. of organizations or agencies were set up, like:-
  - Sick Industrial Undertaking Cell
  - State Level Inter-Institutional committees
  - Standing Coordination Committee
  - Special Cell – Rehabilitation Finance Division of IDBI

Policy frame work of the government:-

The Ministry was responsible in detection of sickness at the early stage

- Policy frame work was framed in 1981 & reviewed in 1982

Concessions by the government:-

- Margin money scheme was introduced
- Excise loan were provided

To conclude, the sick units may be attempted to be turned around through efficient management, change of top level executive and by executing a turnaround strategy.

Module IV

Current Challenges facing the Indian Economy

a. **Issue of Poverty**

In almost all underdeveloped countries where per capita income is very low. Income inequality has resulted in a number of evils, of which poverty is certainly the most serious one. In India, even now, in spite of all the development during the period of planning, 41.6 per cent of the population was getting less than $ 1.25 (PPP) a day in 2004- 05.' This percentage of population was considered to be poor on an international criterion suggested by World Development Report. Most of the lime this population suffered from extreme destitution.

The Concept of Poverty Line

As pointed out by Tendulkar Committee, the concept of poverty is associated with socially perceived deprivation with respect of basic human needs. "These basic human needs are usually listed in the material dimension as the need to be adequately nourished, the need to be decently clothed, the need to be reasonably sheltered, the need to escape avoidable diseases, the need to be (at least) minimally educated and the need to be mobile for purposes of social interaction and participation in economic activity. This shows that the concept of poverty is multidimensional. However, quantitative measurement of income to define poverty line on the basis of such a wide concept of poverty is not possible as this concept includes both material and non-material dimensions. Accordingly, while measuring poverty line, the focus generally has been on the material dimensions and even in this respect, only on minimum consumption requirements. In other words, absolute (private) consumption poverty line is taken to convey the inability of an individual or household to afford a socially perceived normative minimal basket of basic human needs that is expected to be reflected in some normative minimal standard of living that should be assured to every individual/ household. The existing all-India rural and urban poverty lines, anchored in the per capita calorie norms of 2400 (rural) and 2,100 (urban) were originally defined in terms of per capita total consumer expenditure (PCTE) at 1973- 74 market prices and adjusted over time across States for changes in prices. The all-India poverty line so defined in 1973-74 was f49.63 for rural areas and f56.64for urban areas. The all-India poverty line for 2004-05 adjusted for prices was T356.30for rural areas and f538.60for urban areas.

Incidence of Poverty in India

Earlier Estimates - 1960s

The estimates of poverty in India provided by Minhas, Ahluwalia, Bardhan and Dandekar and Rath are quite old and do not indicate exactly the same incidence of poverty.

Estimates for 1973-74 to 1998

Several estimates of incidence of poverty making use of changes in the headcount ratio, i.e., proportion of population below the poverty line arc now available for the period 1973-74 to 1998. These estimates are based primarily on the NSS consumption expenditure data available for this period.

The Planning Commissions Estimates.

The Planning Commission has provided estimates of the incidence of poverty since the early 1990s. As stated earlier, it determined the poverty line for rural population at Rs 49.63 (at 1973-74 prices) per capita per month while for urban population, poverty line was fixed at Rs. 56.64 per capita per month. These poverty lines have been updated over time keeping price changes in view. Estimates for the years 1973-74, 1983-84 and 1993-94 are presented in Table 4.1 along with poverty lines in these years.

Table 4.1

Percentage of Population Below Poverty Line

	1973-74		**1983-84**		**1993-94**	
Areas	Poverty line (Rs)	% of persons	Poverty line (Rs)	% of persons	Poverty line (Rs)	% of persons
Rural	49.63	56.4	89.50	45.7	205.84	37.3
Urban	56.64	49.0	115.65	40.8	281.35	32.4
Combined	-	54.9	-	44.5	-	36.0

Source: RBI, 2010

Over the two decade period 1973-74 to 1993-94, there was a perceptible decline in the incidence of poverty — from 54.9 per cent in 1973-74 to 35.6 per cent in 1993-94. However, in view of the fact that the population had increased considerably over the period, it can safely be concluded that the absolute number of poor people did not decline. Moreover, many economists have pointed out serious flaws in the Planning Commission's methodology and have thus raised doubts about the claims of the Planning Commission regarding reduction in poverty.

Poverty Estimates Based on 55th Round of the NSSO

The 55th Round of the National Sample Survey (July 1999-June 2000) was a quinquennial large sample survey and was thus expected to generate data useful to prepare poverty estimates comparable with those from the previous large sample surveys. The possibility of this has however been questioned due to a fundamental change in the methodology adopted by the NSSO in this Round. The Planning Commission nevertheless made use of these data to prepare two separate estimates of the incidence of poverty.

The consumer expenditure data of the 55th Round on a 30 day recall basis yields the poverty ratios for 1999-2000 of 27.09 per cent in rural areas. 23.62 per cent in urban areas and 26.1 per cent for the country as a whole. The corresponding figures from the 7 day recall period are 24.02 per cent in rural areas. 21.59 per cent in urban areas and 23.33 per cent for the country as a whole. Poverty line was defined as Rs327.56 per capita per month for rural areas and Rs 454.11 per capita per month for urban areas.

Poverty Estimates Based on 61st Round of the NSSO

The 61st Round of the NSSO provides estimates on poverty for the year 2004-05 on the basis of two methods: (I) URP (Uniform Recall Period), and (2) MRP (Mixed Recall Period). While the consumption data for URP uses 30-day recall/reference period for all items of consumption, the consumption data for MRP uses 365-day recall/reference period for 5 infrequently purchased non food items, namely, clothing, footwear, durable goods, education and institutional medical expenses and 30-day recall/reference period for remaining items. Data on the basis of both the methods are presented in Table 4.2.

According to the 61st Round of NSSO, the poverty ratios for the country as a whole in 2004-05 were 27.5 per cent on the basis of URP and 21.8 per cent on the basis of MRP. Poverty ratio for rural India is considerably higher than the poverty ratio for urban areas on the basis of URP while it is almost the same on the basis of MRP.

Table 4.2

Poverty Estimates based on the 61st NSS Round

(Year 2004-2005)

Reference Period	All India	Rural	Urban
Uniform Recall Period (URP) Method	27.5	28.3	25.7
Mixed Recall Period (MRP) Method	21.8	21.8	21.7

Source: GOI, Economic Survey, 2007-08.

SAFETY NETS FOR POOR — POVERTY ALLEVIATION PROGRAMMES

The Earlier Phase

The strategy of direct assault on poverty through rural development and rural employment programmes was first adopted in the 1970s. With the Fifth Plan, poverty alleviation came to be accepted as one of the principal objectives of I economic planning in this country. During the 1970s, a number of special programmes for the rural poor were undertaken of which the important ones were: Small Farmers Development Agency (SFDA), Marginal

Fanners' and Agricultural Labourers' Development Agency (MFAL). Drought-Prone Areas Programme (DPAP), Crash Scheme for Rural Employment (CSRE), Pilot Intensive Rural Employment Project (FIREP) and Food for Work Programme (FWP). None of these programmes comprehensively covered the whole country, though in certain parts of the country some of these programmes operated simultaneously for the same target groups. Apart from this territorial overlap, the major limitation of these programmes was that they were reduced to mere subsidy-giving programmes, lacking any planned approach to enable the rural poor achieve a higher level of income. The element of ad hocism in these programmes further reduced their effectiveness from the point of view of poverty alleviation. Hence, the need was felt for undertaking programmes which were not only far more comprehensive in coverage but could also make a direct assault on rural poverty.

The Latter Phase — Comprehensive Programmes

The Integrated Rural Development Programme URDPy, the National Rural Employment Programme (NREP) and the Rural Landless Employment Guarantee Programme (RLEGP) were conceived keeping the objective of poverty alleviation in view. The IRDP was initially started in 1978-79 in 2,300 development blocks as a programme of total development. In the Sixth Plan, the IRDP was extended to the entire country. The NREP also :.Timeneed at the same lime as part of the Sixth Plan and med at helping that segment of population which depended larrgely on wage employment and had virtually no source of income during the lean agricultural period. The RLEGP was launched on August 15, 1983, with the objective of expanding the employment opportunities for the rural landless. However, with a view to making the implementation of these wages employment programmes more effective, NREP end RLEGP were merged into a single rural employment programme since April I. 1989. The merged programme was named Jawahar Rozgar Yojana (JRY).

The *IRDP* conceived as anti-poverty programme aimed at helping the small and marginal farmers, landless labourers and artisans. It was thought by the planners that these people were poor because they possessed neither any productive assets nor any special skills. Therefore, the *IRDP* was designed to help the poor by creating new assets for them. These assets would include sources of irrigation, bullocks and implements besides inputs like seeds and fertilisers for farming, animals for dairy and other animal husbandry activities and tools and training for cottage industries and handicrafts. The basic strategy was self- employment of the poor with the help of these assets so that they manage to earn enough to rise above the poverty line. The skill endorsement aspect was covered under the *Training of Youth for Self-Employment (TRYSEM).* The Programme Evaluation Organisation of the Planning Commission (PEO), the RBI, the NABARD and the Institute for Financial Management evaluated the performance of the *IRDP* at different points of lime. The general conclusion that emerges from these studies is that the *IRDP* was not very effective as a poverty alleviation measure. However, it has now been restructured and renamed as *Swarnajayanti Gram Swarozgar Yojana (SGSY).* Moreover, certain allied programmes including TRYSEM have been merged into it. *Employment Assurance Scheme (EAS)* until it was merged into *Sampoorna Grameen Rozgar Yojana (SGRY)* in September 2001 provided 100 days of unskilled manual work to the rural poor seeking employment.

At present, special programmes for employment generation are being implemented both in rural and urban areas. All these programmes aim at poverty alleviation as well. The programmes for the rural poor include *Swarnajayanti Gram Swarozgar Yojana* (SGSY) and *Sampoorna Grameen Rozgar Yojana* (SGRY). *The Nehru Rozgar Yojana* (NRY) was launched in October 1989 for the benefit of the urban poor. It was merged into the *Swarnajayanti Shahari Rozgar Yojana in 1997-98. Sampoorna Grameen Rozgar Yojana* (SGRY) was launched in September 2001. *Jawahar Gram Samridhi Yojana* (JGSY) and *Employment Assurance Scheme* (EAS) were merged into it. *SGRY* aims at providing wage employment in rural areas as also food security. *National Rural Employment Guarantee Scheme* (NREGS) was introduced in February 2006. The Scheme aims to provide at least 100 days of guaranteed employment in a financial year to every household in the rural areas covered under the scheme and whose adult members volunteer to do unskilled manual work subject to the conditions laid down in the Act.

b. Unemployment Issues

The size of employment in any country depends to a great extent on the level of development. Therefore, when a country makes progress and its production expands the employment opportunities grow. In India, during the past three decades or so, production has expanded in all the sectors of the economy. In response to these developments the absolute level of employment has also grown. However, during the planning period unemployment in absolute terms has increased. This has happened because during the first three decades of economic planning, trend rate of growth was considerably lower than the targeted rate. Therefore, jobs in adequate number were not created. Further, *economic growth by itself does not solve the problem of unemployment.*

Most of the unemployment in India is definitely structural. During the 1961-2001 period, population in this country had grown at an alarming rate of around 2.15 per cent per annum and with it the number of people *coming to the labour market in search of jobs had also increased rapidly, whereas employment opportunities did not increase most of the time correspondingly due to slow economic growth. Hence there has been "an increase in the volume of unemployment from one plan period to another."* This unemployment, on account of its very nature, can be eliminated only by introducing certain radical reforms in the structure of the economy. Apart from structural unemployment there is Keynesian involuntary unemployment which can be eliminated by increasing effective demand, as is done in developed countries. Though presently it would be wrong to ignore the Keynesian involuntary unemployment, yet the structural unemployment remains a greater cause of anxiety.

Concepts of Unemployment

Keeping in view the recommendations of the Committee of Experts on Unemployment, the National Sample Survey Organisation (NSSO) has developed and standardised concepts and definitions of labour force, employment and unemployment suitable to Indian conditions. These concepts have not only been adopted by the NSSO for conducting surveys on employment since 1972-73, but have also been accepted by the Planning Commission for analysing the dimension of the unemployment problem. *The three concepts of unemployment developed by the NSSO are: (i) Usual Status Unemployment, (ii) Current Weekly Status Unemployment and (iii) Current Daily Status Unemployment.*

1. **The Usual Status concept** is meant to determine the Usual Activity Status — employed, or unemployed or outside the labour force — of those covered by the survey. The activity status is determined with reference to a longer period; say a year preceding to the time of survey. The persons covered by the survey may be classified into those working and/or available for work in their principal activity sector, and those working and/or available for work in a subsidiary sector, that is. a sector other than their principal activity sector. Hence, within the Usual Status concept, the estimates are now derived on the Usual Principal Status as well as Usual Principal and Subsidiary Status basis. *The Usual Status* unemployment rate is a person rate and indicates chronic unemployment because all those who are found "usually" unemployed in the reference year are counted as unemployed.

2. The Current Weekly Status concept determines the activity status of a person with reference to a period of preceding seven days. If in this period a person seeking employment fails to get work for even one hour on any day, he (or she) is deemed to be unemployed. *A person having worked for an hour or more on any one or more days during the reference period gets the employed status. The Current Weekly Status unemployment* rate*, like the Usual Status unemployment rate, is also a person rate.*

3. The Current Daily Status concept considers the activity status of a person for each day of the preceding seven days. A person who works for one hour but less than four hours is considered having worked for half a day. If he works for four hours or more during a day, he is considered as employed for the whole day. The Current Daily Status unemployment rate is a time rate.

Out of these concepts of unemployment, the Current Daily Status concept provides the most appropriate measure of unemployment. Raj Krishna states, 'The daily status flow rate is evidently the most inclusive, covering open as well as partial unemployment. It is therefore the rate which is most relevant for policy-making'.

Estimates of Unemployment (1972-73 to 1993-94)

The rates of unemployment do not indicate any clear trends over the 21 year period, that is, from 1972-73 to 1993-94. However, if we compare unemployment position in 1993-94 with that in 1983 and 1972-73, we observe that there has been marginal decline in unemployment rates.

For the purpose of realising the goal of "employment for all" over a period, an assessment of the backlog of unemployment in the base year and likely additions to the labour force during the reference period has to be made. Till recently the latest survey based estimates of unemployment were available for 1987-88 only. Therefore, the Planning Commission had independently estimated labour force and employment on April 1, 1992 to yield the magnitude of unemployment. Total employment in terms of the Current Weekly Status was estimated to be 301.7 million as against the labour force estimate of 319 million.

Unemployment in Post-Reform Period

At the all-India level the estimates of current daily status unemployment indicate a worsening of the unemployment situation during the period of economic reform in all the four population segments viz. rural males, rural females, urban males and urban females. The increase in the current daily status unemployment rate between 1993-94 and 2004-05 was the steepest for rural females (from 56 per thousand in 1993- 94 to 87 per thousand in 2004-05). The second highest increase was in the case of rural males. In their case, the unemployment rate increased from 56 per thousand in 1993-94 to 80 per thousand in 2004-05.

Generally unemployment in the country is classified into: 1. urban unemployment, and 2. rural unemployment.

Unemployment in Urban Areas

Most of the unemployment in urban areas is open and undisguised. Unemployment of this kind is not only painful at a personal level, but it is also a source of social tensions, which often threatens the whole fabric of society. Despite this problem of unemployment and its attendant dangers, the government has not given adequate attention to it. Even the estimates of urban unemployment have not been prepared on a regular basis. However, the National Sample Survey Organisation (NSSO) has made estimates of unemployment in different years.

Two relatively important forms of urban unemployment are: (i) industrial unemployment, and (ii) educated unemployment.

i. Industrial Unemployment

The exact size of the industrial unemployment in India is not known because the necessary data for its estimation are not available. During the planning period, industrial sector has expanded and employment in it has steadily increased. As against 34.03 million workers employed in manufacturing sector in 1983, 42.5 million workers were employed in 1993-94 and 48.0 million workers in 1999- 2000. This is surely a healthy development and reflects the progressive growth of capitalism in India. A disquieting phenomenon, however, is that over the past three decades unemployment in the industrial sector has increased. This is the result of extremely low growth rate of employment in the organised manufacturing industry. It is observed that employment elasticity had significantly declined in manufacturing during the 1980s and 1990s. It was 0.59 in the period 1983 to 1987-88, from where it declined to 0.33 in the period 1993-94 to 1999-2000.

ii. Educated Unemployment

Educated unemployment is, by and large, a part of urban unemployment. It is a very serious and menacing problem, yet the size of educated unemployment remains largely unmeasured. Not only are there conceptual difficulties in estimating it, but the kind of statistical information that is required for its estimation is also not available. Hence the quantitative base for analysing the problem of educated unemployment is weak. Nonetheless, on the basis of fragmentary information that is available, it is not difficult to understand the basic issues involved in the problem. The Planning Commission's estimates suggest that at the beginning of 1980, approximately 34.72 lakh educated persons were unemployed. National Sample Surveys show that over the period 1983 to 1993-94, the proportion of those educated to a level of higher secondary school or higher among the unemployed persons rose from 47 per cent to 64 per cent.

There are many causes of educated unemployment. The defective educational system, with its theoretical bias, lack of aptitude and technical qualifications for various types of work among job-seekers and maladjustments between demand and supply of educated workers are some well-known causes of educated unemployment.

2. Rural Unemployment

Agricultural Unemployment

According to the NSS, Current Daily Status rural unemployment rate for male workers was 4.58 per cent in 1987-88. Since then unemployment among rural male workers has increased. The Current Daily Status unemployment rate for the rural male workers was 8.0

per cent in 2004- 05 as against 7.2 per cent in 1999-2000 and 5.6 per cent in 1993-94. Most of this unemployment is agricultural unemployment which may be classified into (a) seasonal (b) disguised and (c) chronic and usual status unemployment.

a. Seasonal Unemployment

Agricultural labourers in India rarely have work throughout the year. According to the Second Agricultural Labour Enquiry Committee, agricultural labour in this country had 237 days employment in 1956-57. In other words, on an average their unemployment was approximately for 3 to 4 months. The Planning Commission in its Mid-Term Appraisal of the Fourth *Plan* had pointed out that leaving aside the green revolution belt, in all other areas seasonal unemployment during the early 1970s was at least as much as during the 1950s, if not more. However, considering the decline in employment elasticity, measured as the ratio of employment growth to the growth of value added, in the agricultural sector during the 1980s and 1990s, there is every reason to believe that the seasonal unemployment should have increased in recent years. The employment elasticity in agriculture was estimated to be 0.87 during 1983 to 1987-88. It declined to 0.01 during 1993-94 to 1999-2000.

b. Disguised Unemployment

The Indian agriculture is characterised by the existence of considerable amount of surplus labour. However, no firm estimates of its size arc available. From the fragmentary information that is presently available it appears that in the green revolution belt there is no disguised unemployment. For the past four decades, the demand for wage labour has increased in these areas and agricultural labourers have / been brought from other parts of the country to meet it. In 1 all other regions, pressure of growing population has been increasing on land and when one notices too many people operating tiny agricultural holdings, one feels inclined to believe that disguised unemployment still exists in these areas on a considerable scale.

c. Usual Status Unemployment

Usual Status unemployment in rural areas cannot be clearly distinguished from seasonal and disguised unemployment. Ii is this reason why people remaining unemployed for long periods are sometimes counted as seasonally or disguisedly unemployed.

Causes of unemployment:

The following are the major causes of unemployment in India

1. Jobless growth
2. Increase in labour force

3. Inappropriate technology
4. Inappropriate educational system
5. Government Policies for Removing Unemployment

MAJOR EMPLOYMENT PROGRAMMES

Swaranjayanti Gram Swarozgar Yojana (SOSY) was launched from April I. 1999 after restructuring the IRDP and allied schemes. It is the only self-employment programme for the rural poor. The objective is to bring the self employed above the poverty line by providing them income generating assets through bank credit and government subsidy. Upto December 31. 2010. 40.04 lakh self-help groups (SHGs) have been formed and 154.87 lakh swarojgaries have been assisted with a total outlay of T 37.927 crore.

Sampoorna Grameen Kozgar Yojana (SGRY) was launched on September 25. 2001 and the schemes of Jawahar Gram Samndhi Yojana (JGSY) and Employment Assurance Scheme (EAS) were fully integrated with SGRY. SGRY aims at providing additional wage employment in rural areas. This schcme has cash and foodgrains components and the Centre bears 75 per cent and 100 per cent of the cost of the two with the balance borne by the States/UTs.

The Swarana Jayantl Shuhari Rozgar Yojana (SJSRY) came into operation from December I. 1997. subsuming the earlier urban poverty alleviation programmes. *viz..N*ehru Rozgar Yojana. Prime Minister's Integrated Urban Poverty Eradication Programme and Urban Basic Services Programme. The programme was revamped with effect from April 1. 2009. The scheme provides gainful employment to the urban unemployed and underemployed poor, by encouraging the setting up of self-employment ventures by the urban poor and also by providing wage employment and utilizing their labour for construction of socially and economically useful public assets. The revamped SJSRY has five components: (i) the Urban Self-Employment Programme, *(ii)* the Urban Women Self-Help Programme. *(iii)* Skill Training for Employment Promotion among Urban Poor, *(iv)* the Urban Wage Employment Programme, and *(v)* the Urban Community Development.

Prime Minister's Rozgar Yojana (PMRY) was designed to provide self-employment to more than a million educated unemployed youth by setting up of seven lakh micro-enterprises under the Eighth Five Year Plan. During the Eighth Plan, while loans in 7.70 lakh cases were sanctioned, the actual disbursement of loans was in 5.76 lakh cases. The scheme was continued in the Ninth Five Year Plan. In the first three years of the Ninth Plan, loans were disbursed in 5.0 lakh cases which provided employment to 7.4 lakh persons.

The National Rural Employment Programme (NREP) was started as part of the Sixth Plan and was continue und«r the Seventh Plan. On April 1, 1989 it was merged into the Jawahar Rozgar Yojana. The NREP was meant to help that segment of rural population which largely depends on wage employment and has virtually no source of income during the lean agricultural period. Under the NREP development projects and target group oriented employment generation projects were closely intertwined. The programme was implemented as a centrally-sponsored scheme. But its financial burden was to be shared between the Central government and the State governments on 50:50 basis. Under the scheme a district level employment plan (disaggregated block-wise) was prepared.

The Rural Landless Employment Guarantee Programme (RLEGP) was started on 15th August, 1983. with the objective of expanding employment opportunities for the rural landless. The programme aimed at providing guarantee of employment to at least one member of the landless household for about 100 days in a year. Under this scheme, infrastructural development was undertaken with a view to create employment opportunities for the rural landless. Though the programme was to be fully financed by the Central government, the implementation of the programme was entrusted to the States.

The Integrated Rural Development Programme (IRDP) launched in 1978-79 and extended all over the country in 1980-81 was essentially conceived as an anti- poverty programme under the Sixth Five Year Plan. It. however, through a programme of asset endowment also meant to provide self-employment in a variety of activities like sericulture, animal husbandry and land-based activities in the primary sector; weaving, handicrafts, etc., in the secondary sector; and service and business activities in the tertiary sector. Under the Sixth Plan the IRDP aimed at covering 15 million families in all the blocks of the country. Thus, on an average, about 3,000 families in a block were expected (o receive assistance under this programme. The assets provided to these households were financed through a mix of government subsidy and institutional credit on an average subsidy-credit ratio of 1:2. Under the IRDP. 382 million families were assisted. However, the exact amount of employment generated has not been estimated.

The Scheme of Training Rural Youth for Self- Employment (TRYSEM) was initiated in 1979 with the objective of tackling unemployment problem among the rural youth. It aimed at training about 2 lakh rural youths every year to enable them to become self-employed. Under this scheme 40 youths were to be selected from each block and for being eligible for selection, the person should belong to a rural family having an income less than Rs. 3.500 per year. In making selection, members of scheduled castes and scheduled tribes were given preference. Under the scheme, a minimum of one third of the rural youths trained were to be women. The TRYSEM was merged into Swarnajayanti Gram Swarozgar Yojana in April 1999.

Jawahar Rozgar Yojana (JRY). In February 1989 the government announced a new wage employment scheme, the Jawahar Lai Nehru Rozgar Yojana for intensive employment creation in 120 backward districts. However, later on it was felt that there was no need to have the separate NREP. RLEGP and the Jawahar Lai Nehru Rozgar Yojana. These wage employment programmes had the same objective and similar thrust. Therefore, these programmes were merged into a single rural employment programme on April I, 1989 and it was given the name *Jawahar Rozgar Yojana (JRY),*

The JRY completed eleven years in March 1999. The JRY was restructured with effect from April 1999 and was renamed as *Jawahar Gram Samridhi Yojana (JGSY).* In the first ten years the JRY generated 7.373 million mandays of employment. Thus in quantitative terms the performance of the JRY was not distinctly better than that of the NREP and RLEGP. However, in two respects the JRY was superior to the NREP/RLEGP regime. First, under the JRY there was a clear change in the priorities in favour of economically productive investments, especially which enhance the productivity of land. Second, the JRY approach involving panchayats in planning and implementation of employment schemes was superior to the bureaucratic approach followed under the NREP/RLEGP.

The objective of JGSY was creation of infrastructure and durable assets at the village level so as to increase opportunities for sustained employment to the rural poor. The wage employment under JGSY was provided normally to persons belonging to households below poverty line. There was no sectoral earmarking of resources under JGSY.

The Employment Assurance Scheme (EAS). The EAS aimed at providing 100 days of unskilled manual work on demand to two members of a rural family in the age group of 18 to 60 years in the agricultural lean season within the blocks covered under the scheme. The EAS was universalized so as to make it applicable to all the rural blocks of the country. During 1996-97 to 1999-2000, a total of 1.533.7 million man-days employment was generated under the scheme.

MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE SCHEME (MGNREGS)

Rural unemployment has sharply accentuated in India in the recent years. Between 1993-94 and 1999-2000 rural employment grew at the annual rate of 0.58 per cent while the rate of growth of rural labour force was much higher. In the absence of gainful employment opportunities in rural areas, an increasing number of rural households have faced complete collapse of their incomes. This miserable plight of the rural households has driven an unprecedented number of farmers to commit suicide. Recognizing this humanitarian crisis, the government of the United Progressive Alliance (UPA) at the Centre made a commitment in its Common Minimum Programme (CMP) that, it would immediately enact an Employment Guarantee Act. The draft proposed by the National Advisory Council (NAC) envisaged legal guarantee to every household in rural areas for 100 days for doing casual manual work.

National Rural Employment Guarantee Act (NREGA)

The National Rural Employment Guarantee Act (NREGA) was enacted in September 2005. It came into force on February 2. 2006 and was implemented in a phased manner. In Phase I, it was introduced in 200 of the most backward districts of the country. It was implemented in an additional 130 districts in 2007-08 under Phase II. As per the initial target NREGA was to be expanded countrywide in five years. However, in order to bring the whole nation under its safety net and keeping in view the demand, the scheme was extended to the remaining 274 rural districts of India from April I. 2008 in Phase III. Thus National Rural Employment Guarantee Act (NREGA) now covers all rural areas of the country. From October 22009 National Rural Employment Guarantee Scheme (NREGS) has been renamed as Mahal ma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).

Features of MGNREGS

MGNREGS seeks to provide at least 100 days of guaranteed wage employment in a financial year to at least one member of every rural household whose adult members volunteer to do unskilled manual work. Thus MGNREGS is different from other wage employment programmes as it bestows a legal right and guarantee to the rural population through an Act of Parliament and is not just a scheme like other wage employment programmes. With its rights-based framework and demand-driven approach, MGNREGS marks a paradigm shift from the previous wage programmes. Unique features of the scheme include, time bound employment guarantee and wage payment within 15 days, incentive-disincentive structure to the State governments for providing employment as 90 per cent of the cost of employment provided is borne by the Centre or payment of unemployment allowance at their own cost, and emphasis on labour intensive works prohibiting the use of contractors and machinery. Atlast, 33 per cent of the beneficiaries are to be women. Under MGNREGS, wage disbursement through bank and post office accounts is mandatory. This is likely to help in the financial inclusion' of the poor.

The focus of MGNREGS is 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. Panchayats have a key role in planning, implementation and monitoring of MGNREGS through preparation of perspective plan, approval of shelf of projects, and execution of works at least to the extent of 50 per cent in terms of costs. This shows that *the* Act is also a significant vehicle for strengthening decentralization and deepening the grassroots democratic structure.

MGNREGS promised a wage rate of f 100 per day to a worker However, with time, wages in many States fell below the minimum wages. Moreover, rising food prices made it very difficult to make two ends meet. Accordingly, from January 2011, the government revised the wages by linking them to the Consumer Price Index for agricultural labour (CP1-AL) for each individual State. Accordingly, wages paid under MGNREGS have increased between 17 to 30 per cent in different Stales depending upon the trend in CPI-AL.

Budget allocation for MGNREGS in 2010-11 was Rs 40100 crore while actual spending has been around Rs. 23000 crore which is just around 57 percent of allocation.

Module V

KERALA'S ECONOMIC DEVELOPMENT

Gross State Domestic Product of Kerala

Kerala economy has been growing at rates higher than the national economy the last three years (based on the GDP at 2004-05 prices). GSDP growth rate of Kerala was over one percentage point higher than the national growth rate Last fiscal Government of India changed the base year from 2004-05 to 2011-12 and with the change in base the growth rate showed a jump of close to two percentage point over the rate computed using the earlier base. As regards Kerala, while the GSDP growth rate with the new series for 2012-13 was not very different from that of the old series, for the next two years the new series showed significantly lower growth rates. The net result is that Kerala which was apparently performing better than the national economy seems not doing so.

Agriculture in Kerala has been hit by declining commodity prices Agricultural growth rates m 2013-14 and 2014-15 have turned negative, largely owing to the sharp fall in the prices of rubber and coconut and the related fall in production. Rubber and coconut account for almost two thirds the total area under crops and the global commodity price fall has hit Kerala hard. The growth rate shown for the sector would have been much lower but for the higher growth of milk and meat production in the State

Construction was a high growth sector till recently but has not shown much growth during the last three years. Along with construction, mining and quarrying has also taken a hit reporting growth rates of -16 and -21 per cent in 2012-13 and 2013-14 respectively There was a slight reversal in the fortunes of quarrying in 2014-15 but it was not adequate to compensate the large declines of the previous two years. It may be recalled that the analysis of growth drivers by the Kerala Perspective Plan 2030 had identified construction as one of the drivers It was stated that the period beyond 2001 saw construction, transport, storage and communication, trade, hotel and restaurants, real estate ownership business and legal services, and other services boosting growth. These sectors witnessed high growth riding on the strength of tourism and remittances

Remittances have not yet started falling but threats loom large on the horizon as the employment situation in West Asia has been stressed with the drastic fall in the price of crude oil. Interestingly, these changes in growth rates of the different sectors correspond to the analysis earned out in the Kerala Perspective Plan 2030 (KPP2030). It was shown that any fall in remittances, tourism and welfare spending will take growth to lower levels and that the magnitude of the fall in growth can be large. Three different growth scenarios were visualized (i) Growth in banking and communication sectors slow down; (ii) Growth in banking, communication and construction sectors slow down; and (iii) Growth in remittances slows down. The results would be: Scenario 1- overall growth rate In Kerala expected to fall to 5.1 per cent in 2012-16. and later this growth rate could reach a new low of 4 6 per cent in 2027-31; Scenario 2- a range of growth rate from 3 to 4 per cent, Scenario 3- growth rate of 3.3 per cent. These are extremely low growth rates under which sustaining the welfare gains of the ageing population would pose major problems Kerala has to prepare itself to face these challenges.

Kerala Perspective Plan 2030 did not envisage the impact of terms of trade shock With the precipitous fall in commodity prices and with many of them hitting historic lows of recent decades, the dependence of the State on a few commodities has made it vulnerable to external shock While the crop sector accounts for only around 10 per cent of the Gross State Value Added, the ability of the State Government to support crisis ridden agriculture is rather limited Also, it may be worth remembering the Brazilian coffee experience of yore: the more the government supports the more is produced and both the sector and government wade into deeper crisis Kerala has become a high cost producer and the market rule is that they may find it difficult to survive unless productivity Increases. Government support has to be redesigned to encourage productivity growth

The lower growth of the economy and the fall of commodity prices have begun playing out in the mobilisation of tax revenue by the State Revenue receipts have fallen below expectations for three years in a row and the coming years are going to be difficult given the external environment- While 2015-16 has seen larger flow of Central resources following the larger award of the Fourteenth Finance Commission- both the share in Central taxes and grants- it may not be as bountiful in the next fiscal. Firstly, Revenue Deficit grant will be tower by over Rupees 1000 crore in 2016-17. Secondly, tax revenue of the Central Government may not show the increase seen in 2015-16. Gross Tax Revenue this fiscal has been growing at a rate higher than forecast in the last budget largely on account of the higher excise duties on the back of falling crude prices and service tax collections. Direct tax collection has fallen below the forecast reflecting the general slowing down of the economy and wholesale price increase being in negative territory. Further, the tax revenue increases are decelerating, cumulative increases till November of both income tax and corporation tax trending to below 10 per cent whereas it was between 12 and 14 per cent till September and October.

Overall, the economy of Kerala is facing headwinds both domestic and international. The external environment that has spurred the economy for over two decades has turned distinctively negative with the commodity prices hitting historic lows and decline in foreign tourist arrivals. More pain may yet come if remittances start their southward movement with oil exporters dipping into their reserves On the expenditure side, the cumulative burden of pay arrears will eat into whatever resources that can be mobilised, leaving little room for manoeuvres of any kind.

State Income

The Ministry of Statistics & Programme Implementation has released the new series of national accounts There are some conceptual differences between the key aggregates of national accounts published till 2014-15 at 2004-05 base year prices and 2011-12 base year prices being published now The new series follows System of National Accounts (2008) standards to a large extent GDP at factor cost has been replaced by Gross Value Added (GVA) at basic prices and GDP at market prices is now termed GDP .

The quick estimate of Gross State Domestic Product (GSDP) at constant (2011-12) prices is Rs 43236140 lakh during 2014-15 as against the provisional estimate of Rs 40530850 lakh during 2013-14, registering a growth rate of 6.67 per cent in 2014-15 compared to 4 54 per cent in 2013- 14 . At current prices the Gross State Domestic Product is estimated at Rs 51989585 lakh (quick estimate) during 2014-15 as against the provisional estimate of Rs 46291606 lakh during 2013-14.

The quick estimate of Net State Domestic Product (NSDP) at constant prices (2011-12) is Rs 39176307 lakh during 2014-15 compared to the provisional estimate of Rs 36588661 lakh during 2013-14 recording a growth rate of slightly above 7.0 per cent in 2014-15. At current prices the NSDP is estimated at Rs 47052306 lakh (quick estimate) in 2014-15 compared to the provisional estimate of Rs 41804353 lakh during 2013-14. The growth rate of NSDP at current prices is 12.55 per cent in 2014-15 compared to 12.56 percent in 2013-14.

Per Capita State Income

As per the quick estimates, the per capita Gross State Domestic Product at constant (2011-12) prices in 2014-15 was Rs 127166 as against provisional estimate of Rs 119799 in 2013-14, recording a growth rate of 6.15 per cent in 2014-15. At current prices, the per capita GSDP in 2014-15 was Rs 152912 compared to Rs 136827 in 2013-14. The best indicator of per capita state income is NSDP divided by the population. At constant (2011-12) prices, the quick estimates of per capita Net State Domestic Product in 2014-15 was Rs 115225 as against provisional estimate of Rs 108147 in 2013-14, recording a growth rate of 6.54 per cent in 2014-15. Table 5.1 shows the details of GSDP, NSDP and PCI of Kerala.

Table 5.1

GSDP, NSDP and PCI of Kerala, 2014-15 (at 2011-12 constant prices)

Sl No	Item	Income (Rs. Lakhs)	Growth Rate (%)
1.	GSDP	43236140	6.67
2.	NSDP	39176307	7.07
3.	PCI	127166	6.15

Source: Economic Review, 2015.

Sectoral Distribution of Gross State Value Added

During 2014-15, the contribution from primary, secondary and tertiary sectors to the GSVA at constant prices (2011-12) was 12.15 per cent, 25.11 per cent and 62.74 per cent respectively. At current prices, the primary, secondary and tertiary sectors contributed 12.91 per cent, 24.81 per cent and 62.28 per cent respectively to the GSVA during 2014-15This difference in sectoral share between constant and current prices shows that inflationary trends in the primary sectors are much higher than in the secondary and tertiary sector.

While analysing the sectoral distribution of state income for the year 2014-15, it is seen that the contribution from primary sector and secondary sector are decreasing But tertiary sector is showing an increase to 62 75 per cent from 60 89 per cent. The analysis of annual sectoral growth rate of Gross State Valued Added shows that tertiary sector recorded the highest rate of growth 9 42 per cent in 2014-15 at constant (2011-12) prices followed by secondary sector (3.74 per cent) and primary sector showed a negative growth rate of -3.86 per cent The driving factor for the growth of the tertiary sector is mainly the growth in storage, trade, hotels and restaurant which is showing an increase of 14 72 per cent in 2014-15 compared to 7.10 per cent in 2013-14 Negative growth in agriculture is generally because of the decrease in production of some of the cash crops like pepper, turmeric, cashew, tea, coffee and rubber At current prices, the tertiary sector recorded a growth rate of 14.43 per cent, secondary sector 9.22 per cent and primary sector with 6.13 per cent in 2014-15.

Table 5.2

Sectoral Distribution of Gross State Value Added

Sl No	Sectors	Share in GSVA
1	Primary	12.15
2	Secondary	25.11
3	Tertiary	62.74

Source: Economic Review, 2015.

Poverty Profile of Kerala

Poverty is a complex and multifaceted issue which requires numerous activities to be carried out simultaneously to deal with the problem effectively and efficiently According to the Nobel laureate Professor Amartya Sen "Poverty is not just a lack of money; it is not having the capability to realize one's full potential as a human being'. The World Development Report (2000) identifies three priority areas for reducing poverty increasing opportunity, enhancing empowerment and improving security Opportunity makes markets work for the poor and expands poor people's assets, empowerment makes state institutions work better for poor people and removes social barriers and secunty helps poor people manage risk.

Kerala's approach put human development at its centre - it emphasised education and health; upheld gender parity; channelled public funds to schools, hospitals and infrastructure Individual resources too were directed into areas such as private expenditure on health and education as well as to build health and educational institutions These broad based policies and investments aimed at the equitable provision of public services is the foundation of the celebrated high human development at low per capita income'. This support led strategy has also been at the base of the poverty reduction in the State

The success of Kerala in poverty reduction is reflected in the sharp reduction in the proportion of poor as shown in Table 5.3.

Table 5.3

Proportion of Poor in Kerala

Year	Rural	Urban
1973-74	59.19	62.74
1983	39.03	45.68
1993-94	25.76	24.59
1999-2000	9.38	20.27
2004-05	13.2	20.2
2009-10	9.7	23.7
2011-12	7.3	15.3

Source: Economic Review, 2015

The challenge before Kerala is to bring it down further and continue the numerous programmes which have made the achievement possible.

Various strategies adopted by Kerala for alleviating poverty are:

- Providing subsidised food to the multitudes of population through universal Public Distribution System (PDS).
- Meeting basic amenities and building capabilities: Poverty also means deprivation of tasic amenities, such as housing, sanitation, and water supply. Government had initiated many schemes over a long period to provide these amenities. Panchayati Raj Institutions lave continued many of these schemes with renewed vigour.
- Access to credit through the Kudumbashree Programme initiated in 1998 which acts as an informal "bank of the poor".
- Social security: Assistance to various categories of workers in the informal sector both in agriculture and non-agricultural occupations, cutting across rural-urban and gender differences has been offered through the Welfare Fund Model.
- Pension Programme: In the 1980s pensions were introduced for different categories of population groups.
- Social support to the physically challenged: Kerala has gone beyond the affirmative action in government departments by offering employment to the physically challenged as lottery agents and in other similar avenues.

The participatory decentralized governance is the key instrument for broad based poverty elimination. Even though Kerala has made considerable progress in eradicating poverty, there are still several pockets of deprivation in the State, for example among tribal population and fishermen communities. Greater central assistance and appropriate livelihood programmes in these pockets are required to ensure that poverty is reduced throughout the State.

Demography of Kerala

The Census of 2011 counted Kerala's population at 33406061. Out of this population 16027412 (48 per cent) are males and 17378649 (52 per cent) are females. In the last census in 2001, the population was 3,18,41,374; 1,54,68,614 (48.6 per cent) males and 1,63,72,760 (51.4 per cent) females. The growth rate of Kerala's population during the last ten years is 4.9 per cent, the lowest rate among Indian states. Figure 1.1 shows that the national rate of growth of population during the period 2001-2011 is 17.64 per cent. The population growth trend shows that Kerala is moving towards zero population growth or towards negative growth Among the districts Malappuram has the highest growth rate of 13 4 per cent, and Pathanamthitta has the lowest growth rate (-3.0 per cent). Idukki also has a negative growth rate (-1.8 per cent). The growth rate of population is low In six southern districts (Idukki, Kottayam, Alappuzha, Kollam, Pathanamthitta and Thiruvananthapuram) of the State. The child population (0-6 years) in Kerala shows a declining trend. Census data reveals a negative growth rate of the child population in the State (-6.44 per cent) Kerala’s total child population in 2011 is 3472955 compared to 3793146 in 2001 census Figure 12 presents a visual of chid population in the districts of Kerala in 2001 and 2011. The highest proportion of child population is in Malappuram district and the lowest proportion is in Pathanamthitta district. The proportion of child population has decreased from 12% in 2001 to 10% 2011 in the State. The decreasing trend is seen in all the districts The southern districts of Kerala show 2% decline except Kollam which reports a decline of 1% in the proportion of child population. AJI the northern districts of Kerala show 1% decline in the proportion of child population, except Wayanad which reports a decline of 2%. It shows that new addition to population. In northern districts is faster than in the southern districts.

Literacy

Kerala has the highest effective literacy rate of 94 per cent among Indian states as per 2011 census It was 90 per cent during 2001 census. Kottayam tops in the literacy chart with 97.2 per cent and Pathanamthitta is just behind with 96 5 per cent Wayanad has the lowest literacy rate of 89 per cent and Palakkad is just above with 89.3 per cent. Even the lowest literacy rate of Wayanad is higher than national rate of literacy (72 per cent). The difference between the lowest and the highest value is just 8.2. As compared to 2001, literacy rate of all the districts has improved.

Sex Ratio

The sex ratio (number of females per thousand males) of Kerala according to census 2011 is 1084 and has improved by 26 points from 2001. Sex ratio of India is 943 as per census 2011. Among the districts. Kannur has the highest sex ratio (1136) followed by Pathanamthitta (1132). While Idukki has the lowest ratio (1006), Ernakulum is just above with 1027. All the distncts have the ratio above 1000. The difference between the lowest (ldukki-1006) and highest (Kannur-1136) is 130 points

Child Sex Ratio (0-6 Years)

Child sex ratio (number of females per 1000 males) in Kerala is 964 as per the 2011 census. It was 960 in 2001. Pathanamthitta reports the highest ratio (976) followed by Kollam (973) and Kannur (971). While. Thrissur has the lowest ratio of 950, Alappuzha is just above with the ratio of 951. Considering that the biological level sex ratio at birth is around 105 male births per 100 female births and that it is not invariant, the variations observed across the districts may be the effect of natural selection processes. When analysing the decadal change, the highest gain is for Kollam (13) and Kozhikode followed with a score of 10. AJI other districts have the score below 10 points. Thrissur (-8), Idukki (-5) and Alappuzha (-5) have negative decadal change in sex ratio

Density of Population

Kerala's density of population as per 2011 census is 860 persons / sq km. It is much higher than that of India (382). Thiruvananthapuram is the most densely populated distnct (1508) and Idukki is the least densely populated district (255). Density of population has increased in all districts compared to 2001 except for Pathanamthitta (-16) and Idukki (-4) where it has declined.

Age Group Distribution

The demographic transition of Kerala during the last six decades has resulted in major changes in the composition of population. It is observed that the proportion of population in the age group of (0-14 years), has declined from 43% in 1961 to 23% in 2011. In the case of working age group (15-59 years), there is an increasing trend with slow growth rate. However, due to the increasing life expectancy and availability of health facilities, the proportion of population in the old age group (60 years and above) is showing an increasing trend from 6% in 1961 to 13% in 2011 (See Fig 1.3). It may be observed that the addition to the working age group (15-59 years) has become smaller as the feeder category (0-14 years) is diminishing. Moreover, proportion of the old age dependent group (60 years and above) has increased which will entail higher social security expenditure by government.

The Development Experience of Kerala

The Kerala model of development is the style of development that has been practised in the southern Indian state of Kerala. This state has achieved improvements in material conditions of living, reflected in indicators of social development, comparable to those of many developed countries, even though the state's per capita income is low in comparison to them. Achievements such as low levels of infant mortality and population growth, and high levels of literacy and life expectancy, along with the factors responsible for such achievements have been considered characteristic results of the Kerala model.

The Centre for Development Studies at Thiruvananthapuram with the help of United Nations conducted a case study of selected issues with reference to Kerala in the 1970s. The results and recommendations of this study came to be known as the 'Kerala model' of equitable growth which emphasised land reforms, poverty reduction, educational access and child welfare. Economy professor K. N. Raj was the main person behind this study. The Kerala model brought a sea change in development thinking which was until then obsessed with achieving high GDP growth rates. In collaboration with Raj’s close colleague, Indian economist Amartya Sen, persuaded the UNDP to carry out work on Human Development Indicators (HDIs), which started playing a large role beside GDP in the framing of development policies. The economists noted that despite low incomes, the state had high literacy rates, healthy citizens, and a politically active population. Researchers began to delve more deeply into what was going in the Kerala Model, since human development indexes seemed to show a standard of living which was comparable with life in developed nations, on a fraction of the income. The development standard in Kerala is comparable to that of many first world nations, and is widely considered to be the highest in India at that time. Despite having high standards of human development, the Kerala Model ranks low in terms of industrial and economic development. The high rate of education in the region has resulted in a brain drain, with many citizens migrating to other parts of the world for employment.

The Kerala Model of Development

Kerala has become a model for social development with limiting improvement in an industrialisation sector. Furthermore, Kerala has undermined the broadly accepted idea that the improvement in the standard of living of people can only be achieved after the successful, rapid and steady economic development. Kerala Model of Development took on the theory that economic growth is the only way to meet basic needs of people in poverty, to raise them above poverty, and generate employment. Kerala Model of Development improved and extended basic education, introduced better health care and land reform, as well as access to better social security in terms of pension and employment rights. These achievements come without huge investments in economic growth. Kerala has 33 millions populations and is consider as one of the poorest countries in the world. The gross domestic product per capita is just $1,000 a year -some $200 less than the Indian average. Yet life expectancy in Kerala is 72 years, which is closer to the American average of 76 and above the Indian average of 61. Kerala's infant-mortality rate is among the lowest in the developing world. It is estimates that the infant mortality rate in 1999 was 17 per thousand against an Indian average of 79 per thousand, and around half of in China, and lowers than that in far richer countries such as Argentina. Population is too under control in Kerala. The fertility rate is just 1.7 births per woman -- lower than in Sweden. The fact is that Kerala is also socially and politically different from the rest of India. While the other states in India refashioning itself in the image of western lifestyle and economy, Kerala remains a communist state with very strong influence of trade unions, and more or less centralize politics. Also Muslim and Christian minorities co-exist peacefully with Hindus, which make this state outstanding of all India. On the other hand despite large capacity of natural resources, Kerala suffers from lack of the industrial investment from international and Indian companies, mostly for fear of the state's difficult trade unions, pro-union courts, and high minimum wages. As a consequence Kerala has the highest unemployment rates among Indian's state. It is estimates that in 2003 unemployment were as high as 25 percent.

One of the main successful stories of Kerala's development is education. Kerala has been able to reduce the regional and gender gaps in education, literacy and enrolment at all level of education. More than 94 percent of the rural population has access to primary schools within a distance of one kilometre, while 98 per cent of population has got one school within a distance of two kilometres. Furthermore 96 percent of the population is served by an upper primary school within a travel distance of 3 kilometres and one-fourth by a secondary school within 2 kilometres. Nearly 98 percent of the rural population has the facility for secondary education within 6 to 8 km. Also facilities of higher education and technical education are accessible to rural students in reasonable distance. Another aspect of Kerala's education system is presents of the non-formal education institutions, which are offering courses. Interesting fact is that Kerala's student's counts on one- fifth of the whole population. Also the education system employs 18 percent of the population. The number of teachers is equivalent to about 50 per cent of the total number of workers in the registered factories. The reasons laid on the government no- fees policy for primary and secondary education, as well as low fees for the higher education and technical education institutions. Additionally, easy and highly subsidised transport system for students, especially from rural areas, makes the education more affordable. In addition Kerala has been able to achieve gender equity in education system. Nearly half of the students in lower primary classes are girls. The female literacy in Kerala at 86 per cent is far above the all-India rate of 39 percent, and as high as in many developed countries. For example in China the female literacy is 93 percent placing Kerala in close position considering the country population.

Second, the biggest achievement of Kerala Model of Development is control of the population growth. In the seventies, the growth rate in population declined from 2.33 percent in the sixties to 1.76 percent. In the eighties the growth rate in population comes down to 1.34 percent. In the nineties it was just 0.91 percent. Birth rate had come down from 25.0 during 1974-80 to 20.3 during 1984-90 and to 17.1 during 1994-2001. S Irudaya of CDS identified that the Total Fertility Rate declined from 2.9 to 2.0 and to 1.7 during this period. Life at birth of males is 71.2 years, against an Indian average of 59.1 years, and the expectation of life at birth of females is 73.7 years, against an Indian average of 60.4 years. Kerala's access to affordable health care and education has huge impact on birth and mortality rate of the population. Birth control is wildly accessible.

To conclude, Kerala's development achieved major success in human development like minimum social security, food security, minimum gender differences in education, as well as easy and affordable access to health care. Also significantly, Kerala distributed all the achievements relatively equally across urban-rural areas, between man and women, and low caste-high caste populations. In this respect Kerala does better than the rest of India, and some of developed countries.

Sen-Bhagawati Debate

The argument between the two great economists, Amartya Sen and Bhagawati is about India's governance priorities. Should the government focus on schemes that alleviate poverty, increase life expectancy and literacy? Whether development is the key to growth?

Conversely, should there be greater emphasis on investments leading to producing more and more goods and services leading to generating more and more resources? Is growth the driving force behind development?

Economic growth is an increase in the capacity of an economy to produce goods & services, from one period to another. Gross Domestic Product (GDP) or Gross National Product (GNP) per capita is used to measure growth. The change in total volume/value of goods & services produced during a particular period as compared with a previous period, indicates growth. This requires capital investment which may be provided by the State and/or by private entrepreneurs. Economic Development is the concerted actions of policy makers to promote standard of living and economic health of a region. These actions include development of human capital through emphasis on health, literacy, social inclusion & so on. Development experts use Physical Quality of Life Index (PQLI) that runs a scale from zero to hundred to measure it. PQLI combines most of the indicators of a decent human life. The level of literacy, infant mortality rates, maternal mortality rates, life expectancy are some of the indicators of development. This can be achieved mainly through State sponsored schemes.

The Nobel Prize winner in economics and a Professor of Economics & Philosophy, at Harvard University, Prof. Amartya Sen, believes that India should invest more in social infrastructure to increase productivity of its people & thus raise growth. Investing in health & education will improve human capabilities. Unhealthy & uneducated labor cannot produce memorable growth rates. Without such investments inequalities will widen & the growth process will eventually falter. Prof. Sen emphasizes on development of human capital & he prescribes State led distributive efforts as the solution for India's problems. He has made valuable contributions to understanding poverty & social justice. Prof. Sen upheld the "Kerala experience" - high social spending(state sponsored schemes) resulting in growth - as a role model for other states to follow. Prof. Jagdish Bhagwati, is a Professor of Economics from Columbia University nominated for the top honor several times. Prof. Bhagwati's point of view is that by focusing on growth, resources can be generated which can then be invested in social sector schemes - health, education & so on. Initially growth may raise inequalities. However a sustained growth will raise enough resources for the State to redistribute and reduce the ill effects of the initial inequality. Prof. Bhagwati argues that growth and welfare programs are needed but not at the cost of each other. Subsidies that do not benefit the poor should go. His stance on globalization and reforms have won him accolades from the legendary economist Paul Samuelson. Prof. Bhagwati describes the Gujarat Model as a metaphor for primary growth and private entrepreneurship leading to development.