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VIVEKANANDA COLLEGE

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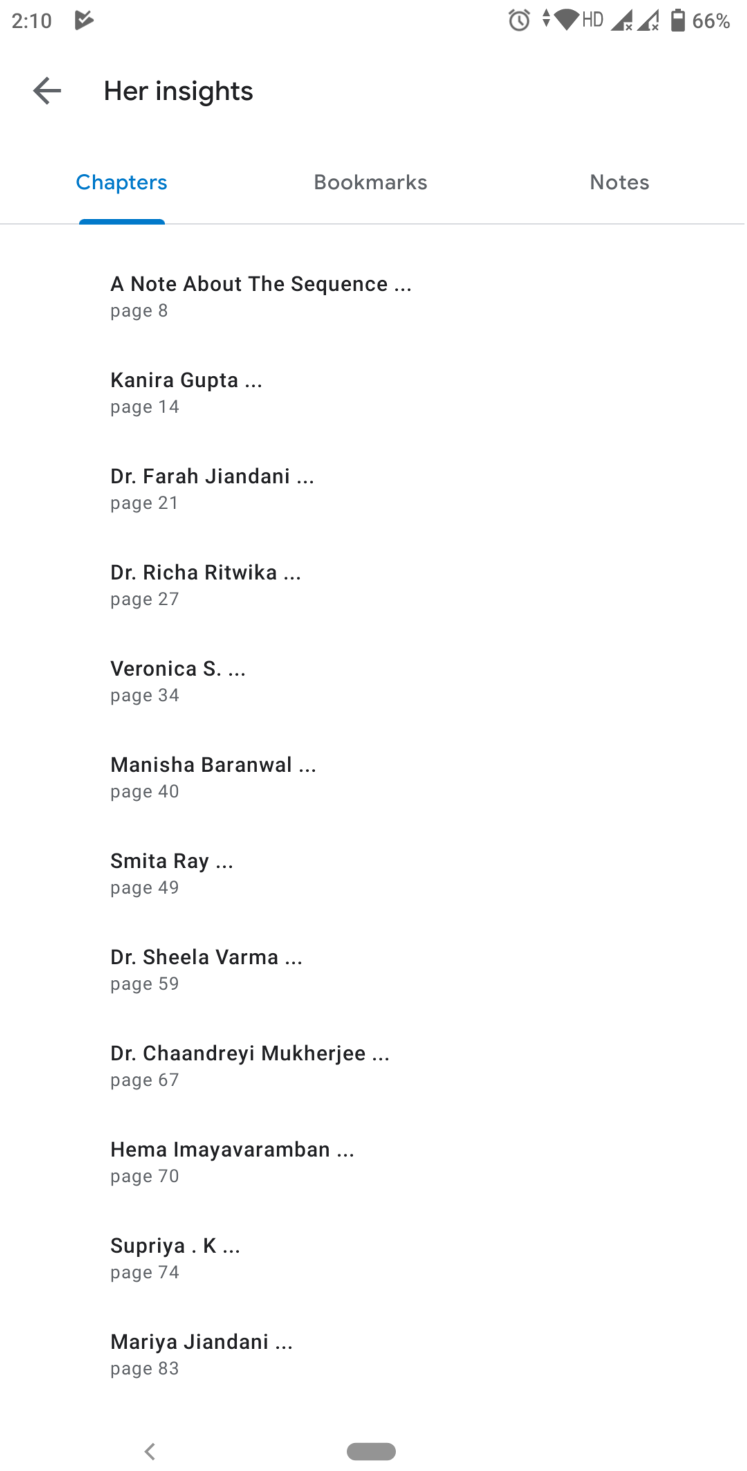

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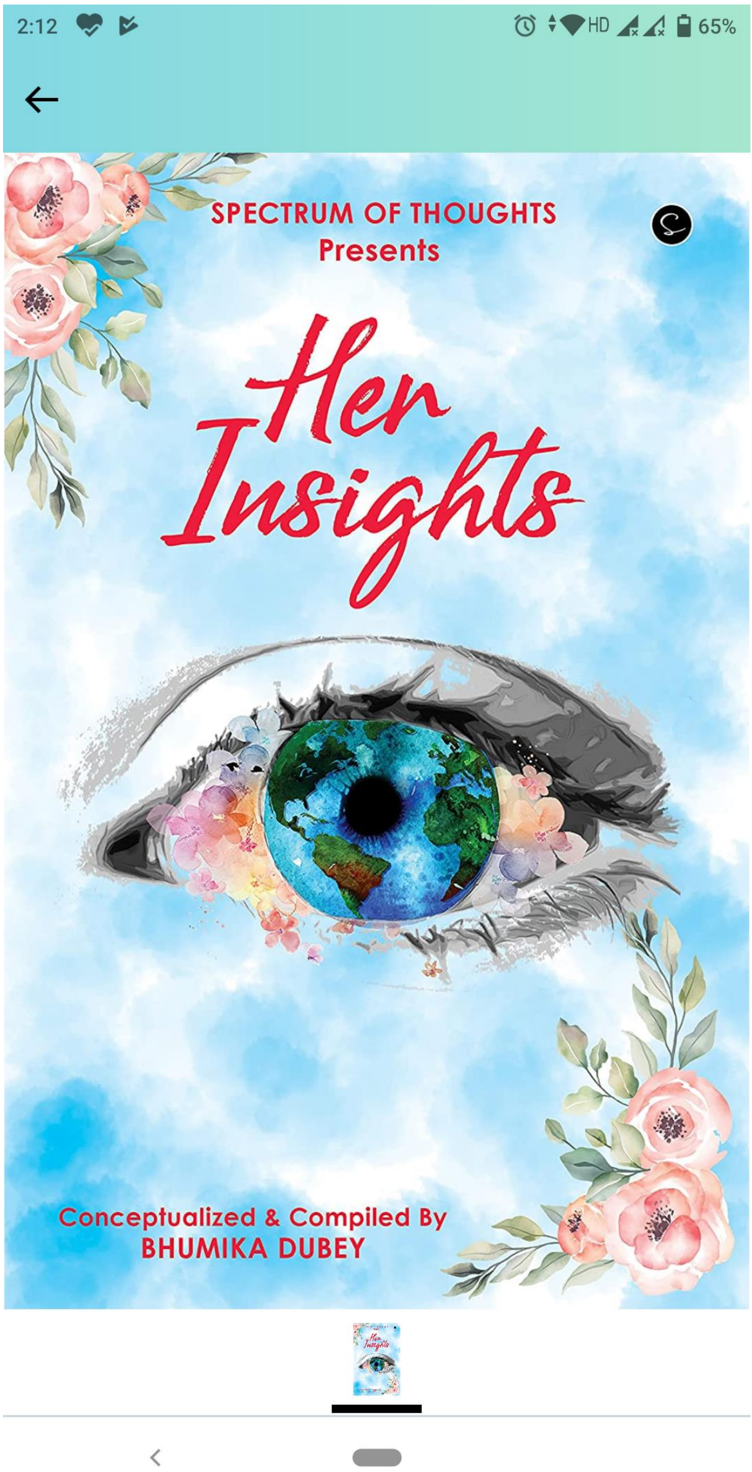

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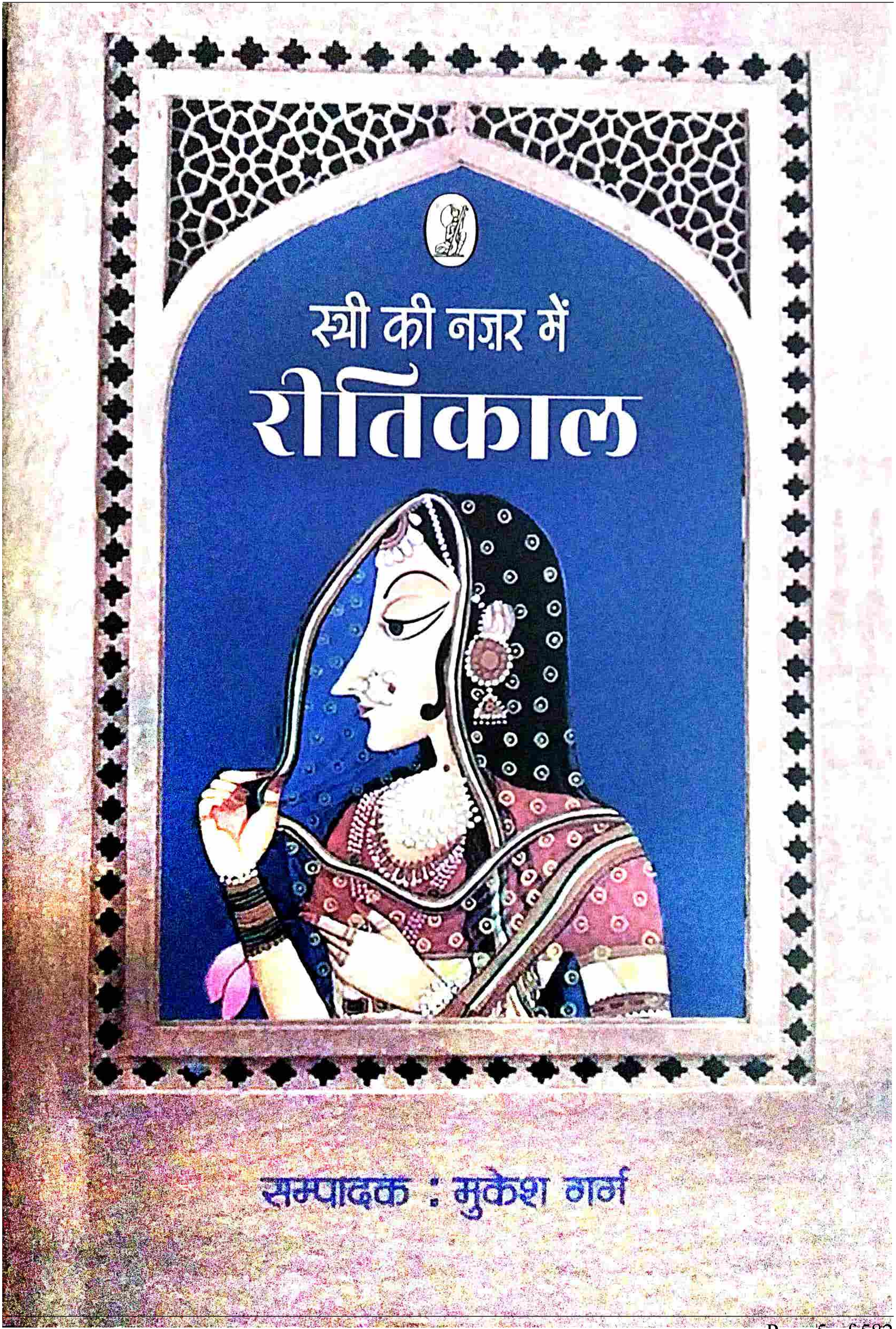


स्त्री की नज़र में रीतिकाल

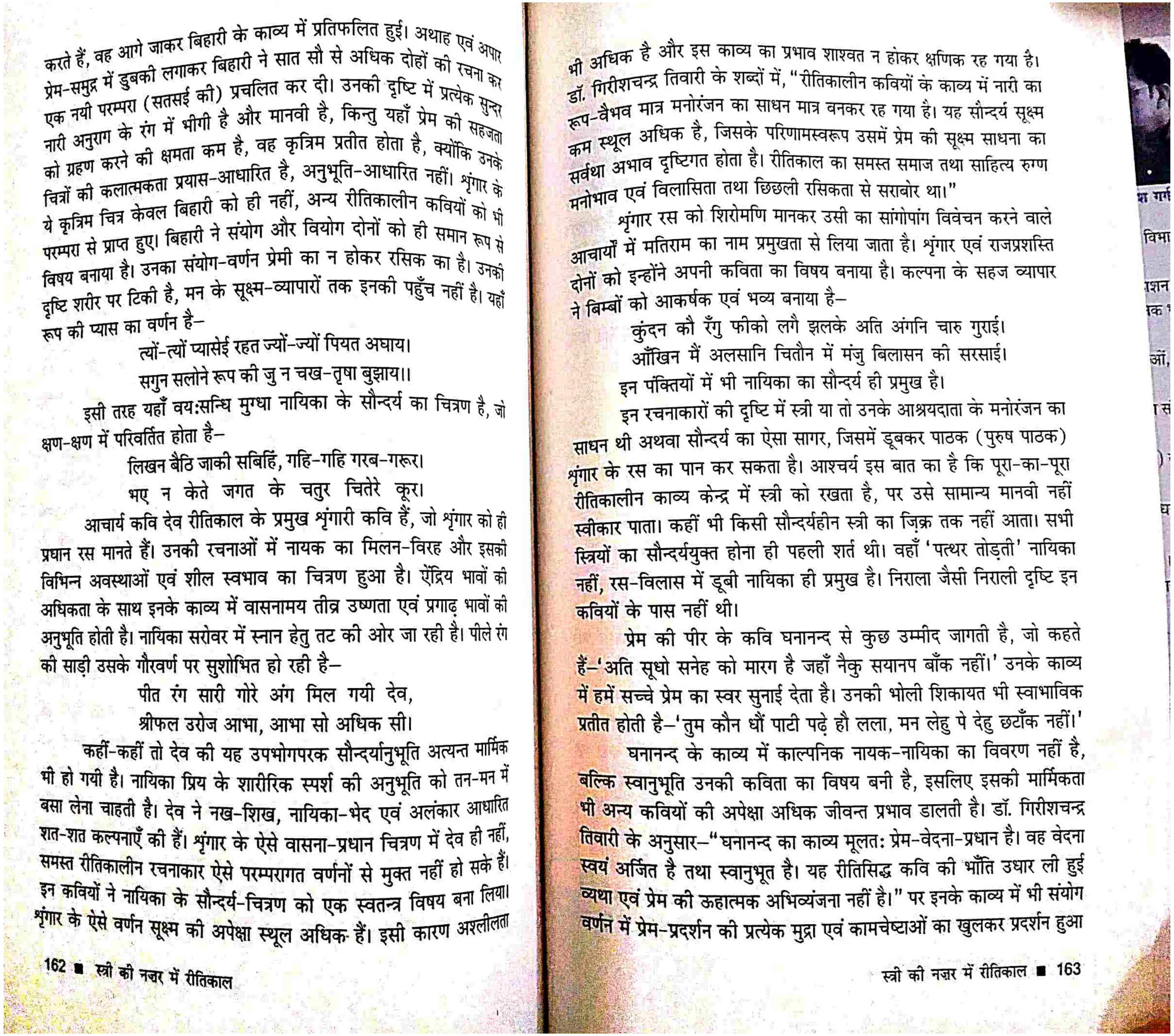
सम्पादक : मुकेश गर्ग

अनुक्रम

स्त्री-विमर्श की पृष्ठभूमि में रीतिकाव्य

डॉ. योजना कालिया

वर्तमान युग विमर्शों का युग है। उनमें स्त्री-विमर्श ने समाज को सबसे अधिक प्रभावित किया है। इसके जन्म की पृष्ठभूमि पर ग़ौर करते ही हमें भारतीय समाज में स्त्री की दयनीय दशा का ध्यान आता है। परिस्थितियाँ चाहे कुछ भी हों, नुकसान हमेशा स्त्री को झेलना पड़ता है। जब यहाँ स्त्रियों की आबादी अधिक हो जाती है, तब एक पुरुष कई स्त्रियाँ रखने का सहज अधिकार प्राप्त कर लेता है और जब यही आबादी घट जाती है तो एक स्त्री को पाँच-पाँच पुरुषों को वहन करना पड़ता है। एक ही देश के समाज का अलग-अलग परिस्थिति में अलग-अलग न्याय, पर हर बार प्रताड़ना स्त्री के ही हिस्से में। स्त्री यहाँ पुरुष के लिए सम्पत्ति की तरह है, वस्तु की तरह है, आनन्द के साधन की तरह है। उसकी वैयक्तिकता, उसका हृदय, उसकी इच्छा यहाँ विचारणीय प्रश्नों की श्रेणी में नहीं आते। आज इन प्रश्नों की आहट् समाज के द्वार पर सुनाई दे रही है। लेकिन आदिकाल से लेकर रीतिकाल तक का हिन्दी साहित्य इस आहट को लगातार दबाता रहा है। इन कवियों ने स्त्री के विविध रूपों को रचना का विषय बनाने का विचार नहीं किया। माँ, बहन, पत्नी, प्रिया, बेटी इन सभी में से केवल प्रिया का नायिका रूप में विवेचन इन कवियों को आकर्षित करता रहा। हाँ, कभी-कभी पत्नीरूप को भी ले लिया गया है, जिसका मुख्य उद्देश्य शृंगार रस की उत्पत्ति करना ही है। आदिकालीन रासोकाव्य एवं लौकिक साहित्य (ढोला मारू रा दूहा आदि) में वर्णित लोकप्रसिद्ध प्रेमगाथाएँ शृंगारकाव्य परम्परा की महत्त्वपूर्ण कड़ी हैं। वीर रस की कृतियों में भी शृंगार एक प्रभावी तत्त्व बनकर समा गया। इस काव्य में नारी-हृदय की अत्यन्त मार्मिक व्यंजना मिलती है, प्रेम का सात्त्विक, किन्तु सरस पक्ष विस्तार से यहाँ प्रस्तुत हुआ है। 'ढोला मारू रा दूहा' का मूल रूप दोहों में मिलता है। ये दोहे शृंगार रस की जो परम्परा आरम्भ



करते हैं, वह आगे जाकर बिहारी के काव्य में प्रतिफलित हुई। अथाह एवं अपार प्रेम-समुद्र में डुबकी लगाकर बिहारी ने सात सौ से अधिक दोहों की रचना कर एक नयी परम्परा (सतसई की) प्रचलित कर दी। उनकी दृष्टि में प्रत्येक सुन्दर नारी अनुराग के रंग में भीगी है और मानवी है, किन्तु यहाँ प्रेम की सहजता को ग्रहण करने की क्षमता कम है, वह कृत्रिम प्रतीत होता है, क्योंकि उनके चित्रों की कलात्मकता प्रयास-आधारित है, अनुभूति-आधारित नहीं। शृंगार के ये कृत्रिम चित्र केवल बिहारी को ही नहीं, अन्य रीतिकालीन कवियों को भी परम्परा से प्राप्त हुए। बिहारी ने संयोग और वियोग दोनों को ही समान रूप से विषय बनाया है। उनका संयोग-वर्णन प्रेमी का न होकर रसिक का है। उनकी दृष्टि शरीर पर टिकी है, मन के सूक्ष्म-व्यापारों तक इनकी पहुँच नहीं है। यहाँ रूप की प्यास का वर्णन है–

त्यों-त्यों प्यासेई रहत ज्यों-ज्यों पियत अघाय।
सगुन सलोने रूप की जु न चख-तृषा बुझाय।।

इसी तरह यहाँ वय:सन्धि मुग्धा नायिका के सौन्दर्य का चित्रण है, जो क्षण-क्षण में परिवर्तित होता है–

लिखन बैठि जाकी सबिहिं, गहि-गहि गरब-गरूर।
भए न केते जगत के चतुर चितेरे कूर।

आचार्य कवि देव रीतिकाल के प्रमुख शृंगारी कवि हैं, जो शृंगार को ही प्रधान रस मानते हैं। उनकी रचनाओं में नायक का मिलन-विरह और इसकी विभिन्न अवस्थाओं एवं शील स्वभाव का चित्रण हुआ है। ऐंद्रिय भावों की अधिकता के साथ इनके काव्य में वासनामय तीव्र उष्णता एवं प्रगाढ़ भावों की अनुभूति होती है। नायिका सरोवर में स्नान हेतु तट की ओर जा रही है। पीले रंग की साड़ी उसके गौरवर्ण पर सुशोभित हो रही है–

पीत रंग सारी गोरे अंग मिल गयी देव,
श्रीफल उरोज आभा, आभा सो अधिक सी।

कहीं-कहीं तो देव की यह उपभोगपरक सौन्दर्यानुभूति अत्यन्त मार्मिक भी हो गयी है। नायिका प्रिय के शारीरिक स्पर्श की अनुभूति को तन-मन में बसा लेना चाहती है। देव ने नख-शिख, नायिका-भेद एवं अलंकार आधारित शत-शत कल्पनाएँ की हैं। शृंगार के ऐसे वासना-प्रधान चित्रण में देव ही नहीं, समस्त रीतिकालीन रचनाकार ऐसे परम्परागत वर्णनों से मुक्त नहीं हो सके हैं। इन कवियों ने नायिका के सौन्दर्य-चित्रण को एक स्वतन्त्र विषय बना लिया। शृंगार के ऐसे वर्णन सूक्ष्म की अपेक्षा स्थूल अधिक हैं। इसी कारण अश्लीलता भी अधिक है और इस काव्य का प्रभाव शाश्वत न होकर क्षणिक रह गया है। डॉ. गिरीशचन्द्र तिवारी के शब्दों में, "रीतिकालीन कवियों के काव्य में नारी का रूप-वैभव मात्र मनोरंजन का साधन मात्र बनकर रह गया है। यह सौन्दर्य सूक्ष्म कम स्थूल अधिक है, जिसके परिणामस्वरूप उसमें प्रेम की सूक्ष्म साधना का सर्वथा अभाव दृष्टिगत होता है। रीतिकाल का समस्त समाज तथा साहित्य रुग्ण मनोभाव एवं विलासिता तथा छिछली रसिकता से सराबोर था।"

शृंगार रस को शिरोमणि मानकर उसी का सांगोपांग विवेचन करने वाले आचार्यों में मतिराम का नाम प्रमुखता से लिया जाता है। शृंगार एवं राजप्रशस्ति दोनों को इन्होंने अपनी कविता का विषय बनाया है। कल्पना के सहज व्यापार ने बिम्बों को आकर्षक एवं भव्य बनाया है–

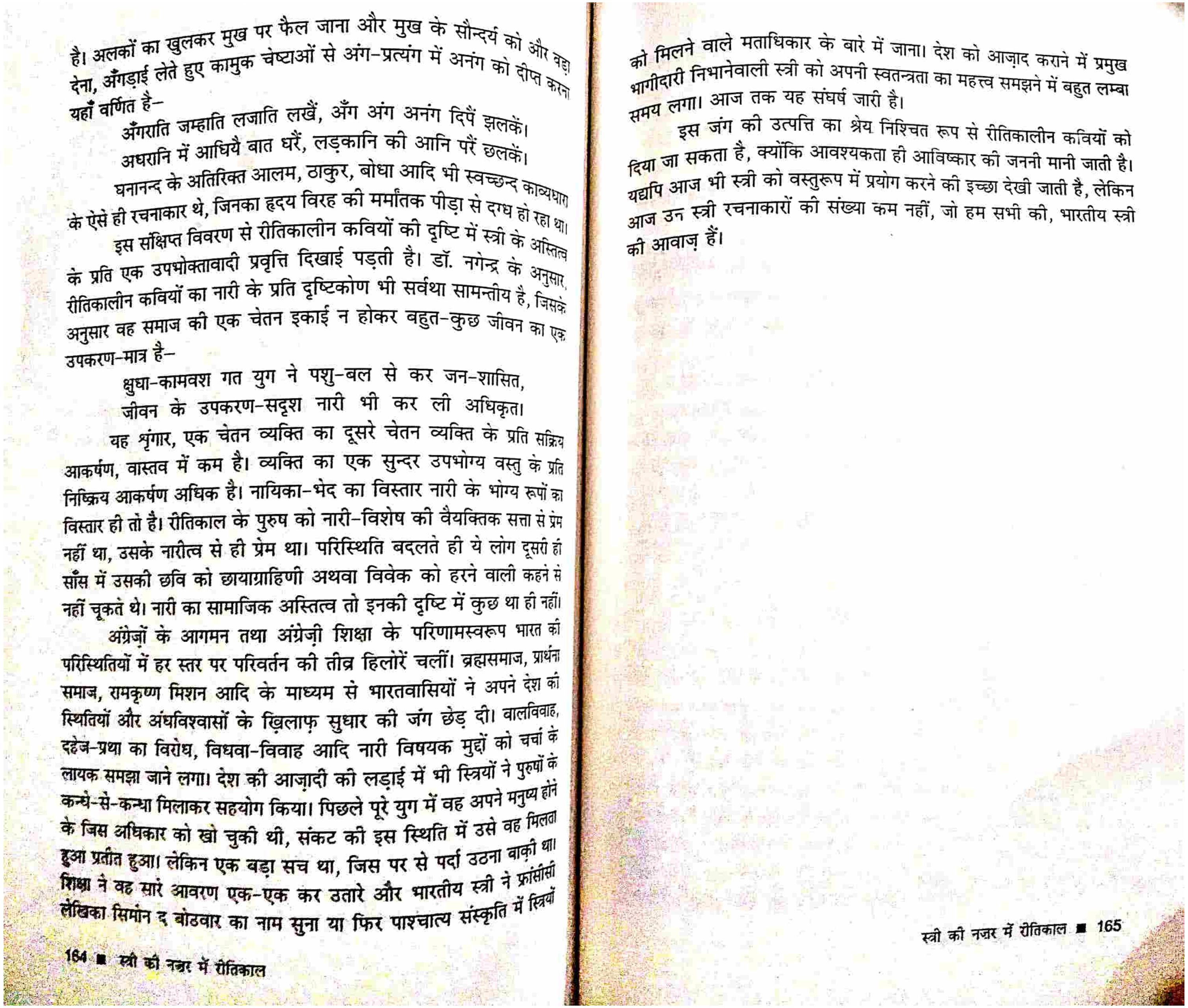
कुंदन कौ रँगु फीको लगै झलके अति अंगनि चारु गुराई।
आँखिन मैं अलसानि चितौन में मंजु बिलासन की सरसाई।

इन पंक्तियों में भी नायिका का सौन्दर्य ही प्रमुख है।

इन रचनाकारों की दृष्टि में स्त्री या तो उनके आश्रयदाता के मनोरंजन का साधन थी अथवा सौन्दर्य का ऐसा सागर, जिसमें डूबकर पाठक (पुरुष पाठक) शृंगार के रस का पान कर सकता है। आश्चर्य इस बात का है कि पूरा-का-पूरा रीतिकालीन काव्य केन्द्र में स्त्री को रखता है, पर उसे सामान्य मानवी नहीं स्वीकार पाता। कहीं भी किसी सौन्दर्यहीन स्त्री का ज़िक्र तक नहीं आता। सभी स्त्रियों का सौन्दर्ययुक्त होना ही पहली शर्त थी। वहाँ 'पत्थर तोड़ती' नायिका नहीं, रस-विलास में डूबी नायिका ही प्रमुख है। निराला जैसी निराली दृष्टि इन कवियों के पास नहीं थी।

प्रेम की पीर के कवि घनानन्द से कुछ उम्मीद जागती है, जो कहते हैं–'अति सूधो सनेह को मारग है जहाँ नैकु सयानप बाँक नहीं।' उनके काव्य में हमें सच्चे प्रेम का स्वर सुनाई देता है। उनकी भोली शिकायत भी स्वाभाविक प्रतीत होती है–'तुम कौन धौं पाटी पढ़े हौ लला, मन लेहु पे देहु छटाँक नहीं।'

घनानन्द के काव्य में काल्पनिक नायक-नायिका का विवरण नहीं है, बल्कि स्वानुभूति उनकी कविता का विषय बनी है, इसलिए इसकी मार्मिकता भी अन्य कवियों की अपेक्षा अधिक जीवन्त प्रभाव डालती है। डॉ. गिरीशचन्द्र तिवारी के अनुसार–"घनानन्द का काव्य मूलत: प्रेम-वेदना-प्रधान है। वह वेदना स्वयं अर्जित है तथा स्वानुभूत है। यह रीतिसिद्ध कवि की भाँति उधार ली हुई व्यथा एवं प्रेम की ऊहात्मक अभिव्यंजना नहीं है।" पर इनके काव्य में भी संयोग वर्णन में प्रेम-प्रदर्शन की प्रत्येक मुद्रा एवं कामचेष्टाओं का खुलकर प्रदर्शन हुआ



है। अलकों का खुलकर मुख पर फैल जाना और मुख के सौन्दर्य को और बढ़ा देना, अँगड़ाई लेते हुए कामुक चेष्टाओं से अंग-प्रत्यंग में अनंग को दीप्त करना यहाँ वर्णित है–

अँगराति जम्हाति लजाति लखैं, अँग अंग अनंग दिपैं झलकें।
अधरानि में आधियै बात धरैं, लड़कानि की आनि परैं छलकें।

घनानन्द के अतिरिक्त आलम, ठाकुर, बोधा आदि भी स्वच्छन्द काव्यधारा के ऐसे ही रचनाकार थे, जिनका हृदय विरह की मर्मांतक पीड़ा से दग्ध हो रहा था।

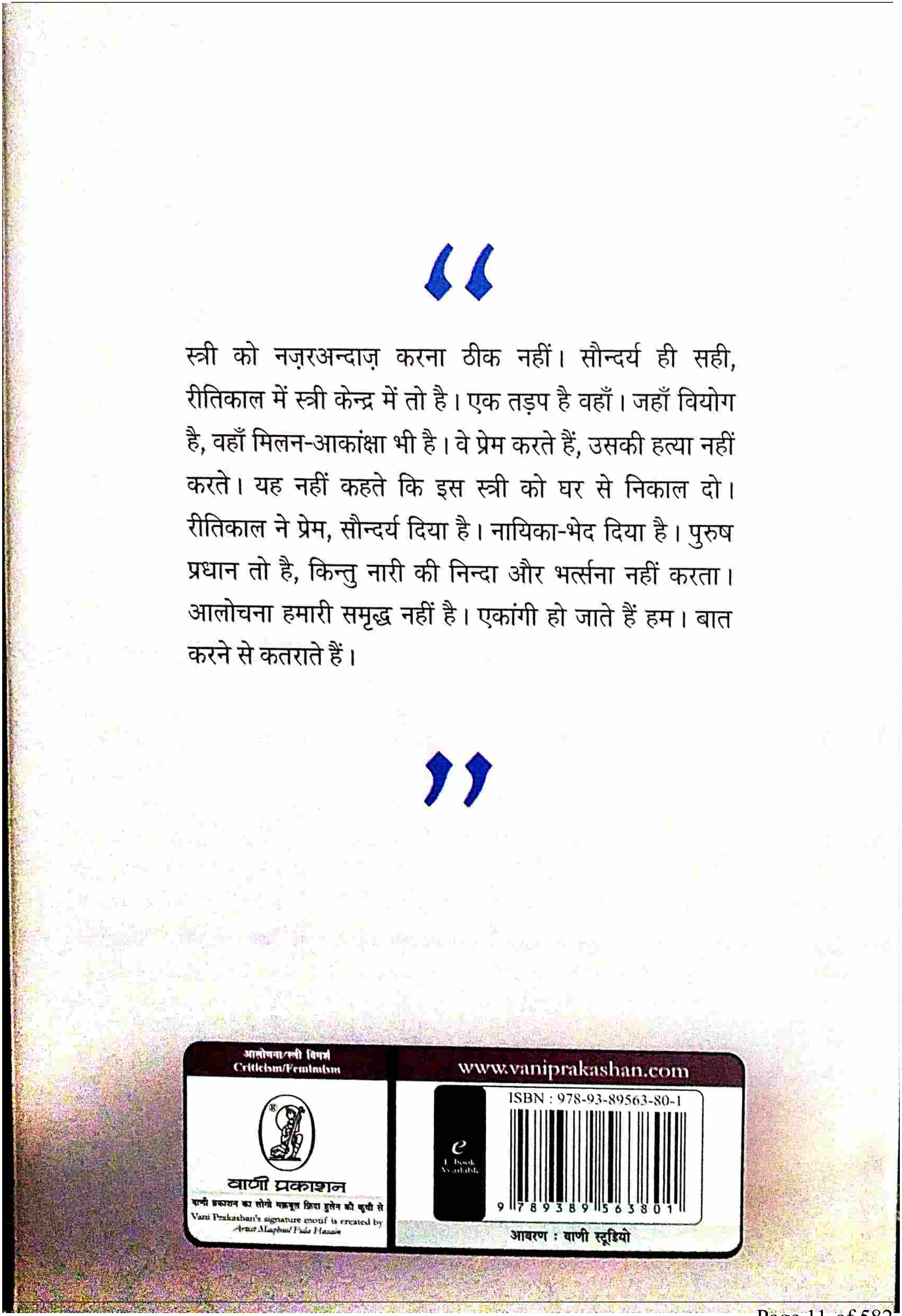
इस संक्षिप्त विवरण से रीतिकालीन कवियों की दृष्टि में स्त्री के अस्तित्व के प्रति एक उपभोक्तावादी प्रवृत्ति दिखाई पड़ती है। डॉ. नगेन्द्र के अनुसार, रीतिकालीन कवियों का नारी के प्रति दृष्टिकोण भी सर्वथा सामन्तीय है, जिसके अनुसार वह समाज की एक चेतन इकाई न होकर बहुत-कुछ जीवन का एक उपकरण-मात्र है–

क्षुधा-कामवश गत युग ने पशु-बल से कर जन-शासित,
जीवन के उपकरण-सदृश नारी भी कर ली अधिकृत।

यह शृंगार, एक चेतन व्यक्ति का दूसरे चेतन व्यक्ति के प्रति सक्रिय आकर्षण, वास्तव में कम है। व्यक्ति का एक सुन्दर उपभोग्य वस्तु के प्रति निष्क्रिय आकर्षण अधिक है। नायिका-भेद का विस्तार नारी के भोग्य रूपों का विस्तार ही तो है। रीतिकाल के पुरुष को नारी-विशेष की वैयक्तिक सत्ता से प्रेम नहीं था, उसके नारीत्व से ही प्रेम था। परिस्थिति बदलते ही ये लोग दूसरी ही साँस में उसकी छवि को छायाग्राहिणी अथवा विवेक को हरने वाली कहने से नहीं चूकते थे। नारी का सामाजिक अस्तित्व तो इनकी दृष्टि में कुछ था ही नहीं।

अंग्रेज़ों के आगमन तथा अंग्रेज़ी शिक्षा के परिणामस्वरूप भारत की परिस्थितियों में हर स्तर पर परिवर्तन की तीव्र हिलोरें चलीं। ब्रह्मसमाज, प्रार्थना समाज, रामकृष्ण मिशन आदि के माध्यम से भारतवासियों ने अपने देश की स्थितियों और अंधविश्वासों के ख़िलाफ़ सुधार की जंग छेड़ दी। बालविवाह, दहेज-प्रथा का विरोध, विधवा-विवाह आदि नारी विषयक मुद्दों को चर्चा के लायक समझा जाने लगा। देश की आज़ादी की लड़ाई में भी स्त्रियों ने पुरुषों के कन्धे-से-कन्धा मिलाकर सहयोग किया। पिछले पूरे युग में वह अपने मनुष्य होने के जिस अधिकार को खो चुकी थी, संकट की इस स्थिति में उसे वह मिलता हुआ प्रतीत हुआ। लेकिन एक बड़ा सच था, जिस पर से पर्दा उठना बाक़ी था। शिक्षा ने वह सारे आवरण एक-एक कर उतारे और भारतीय स्त्री ने फ्रांसीसी लेखिका सिमोन द बोउवार का नाम सुना या फिर पाश्चात्य संस्कृति में स्त्रियों को मिलने वाले मताधिकार के बारे में जाना। देश को आज़ाद कराने में प्रमुख भागीदारी निभानेवाली स्त्री को अपनी स्वतन्त्रता का महत्त्व समझने में बहुत लम्बा समय लगा। आज तक यह संघर्ष जारी है।

इस जंग की उत्पत्ति का श्रेय निश्चित रूप से रीतिकालीन कवियों को दिया जा सकता है, क्योंकि आवश्यकता ही आविष्कार की जननी मानी जाती है। यद्यपि आज भी स्त्री को वस्तुरूप में प्रयोग करने की इच्छा देखी जाती है, लेकिन आज उन स्त्री रचनाकारों की संख्या कम नहीं, जो हम सभी की, भारतीय स्त्री की आवाज़ हैं।



“

स्त्री को नज़रअन्दाज़ करना ठीक नहीं। सौन्दर्य ही सही, रीतिकाल में स्त्री केन्द्र में तो है। एक तड़प है वहाँ। जहाँ वियोग है, वहाँ मिलन-आकांक्षा भी है। वे प्रेम करते हैं, उसकी हत्या नहीं करते। यह नहीं कहते कि इस स्त्री को घर से निकाल दो। रीतिकाल ने प्रेम, सौन्दर्य दिया है। नायिका-भेद दिया है। पुरुष प्रधान तो है, किन्तु नारी की निन्दा और भर्त्सना नहीं करता। आलोचना हमारी समृद्ध नहीं है। एकांगी हो जाते हैं हम। बात करने से कतराते हैं।

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आलोचना/स्त्री विमर्श
Criticism/Feminism

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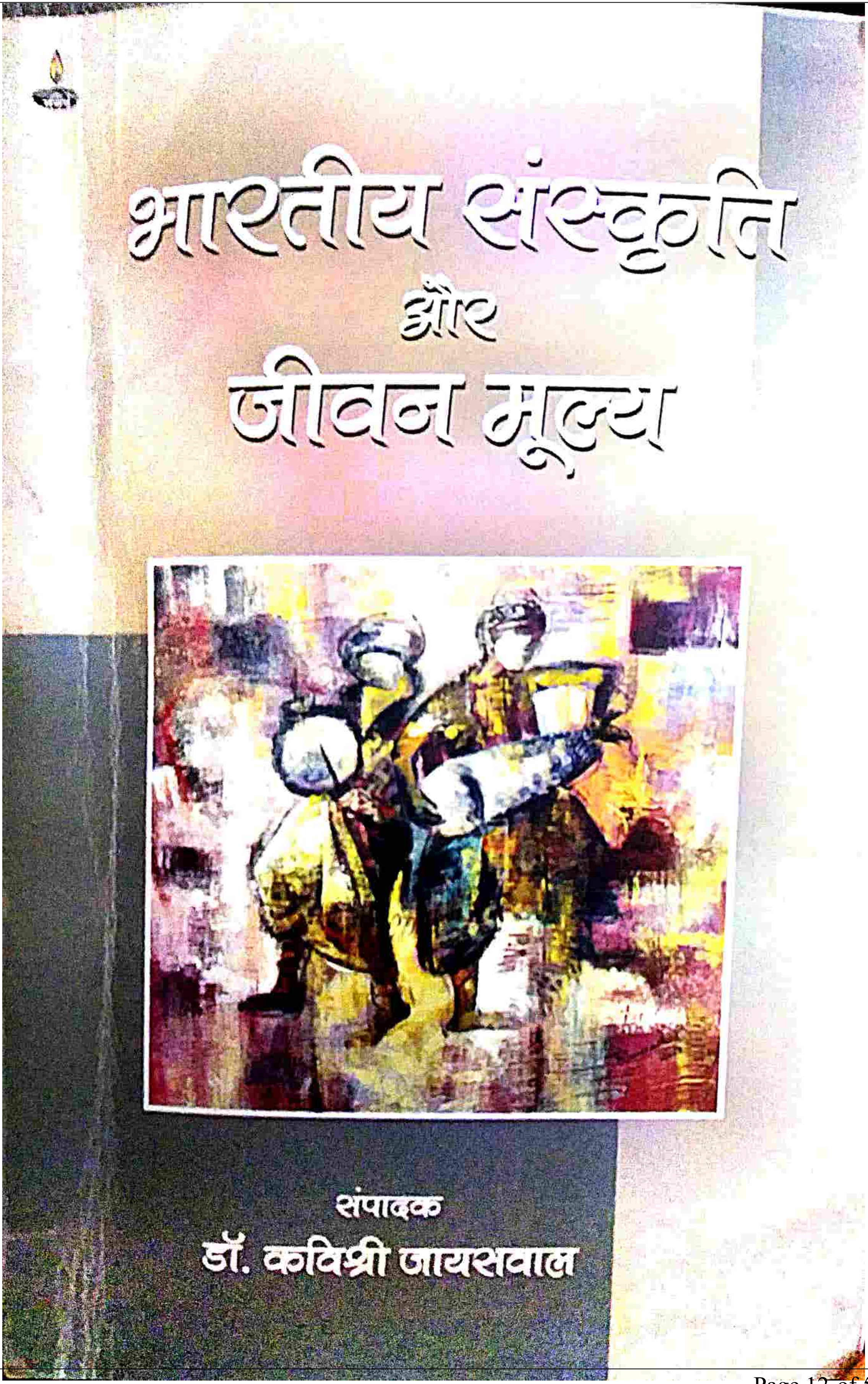
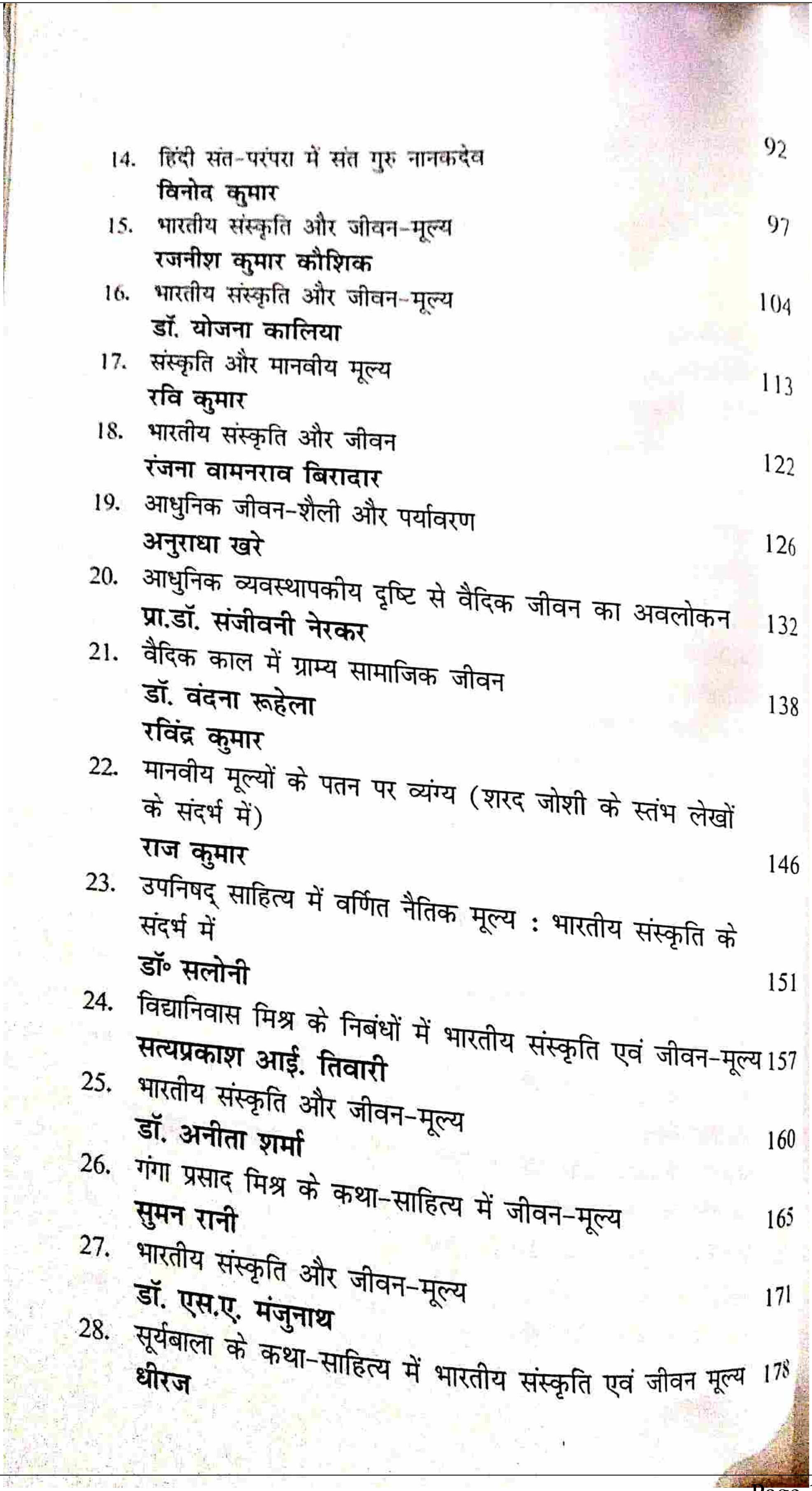


भारतीय संस्कृति और जीवन मूल्य

संपादक

डॉ. कविश्री जायसवाल

अनुक्रम



भारतीय संस्कृति और जीवन-मूल्य

डॉ. योजना कालिया
विवेकानंद कॉलेज, दिल्ली विश्वविद्यालय

जिन तत्त्वों से मानव अपना मानसिक और शारीरिक परिष्कार करता है उनमें संस्कृति का स्थान सर्वप्रथम आता है। संस्कृति शब्द ‘सम्’ उपसर्ग में ‘कृ’ धातु के उपरांत ‘क्तिन्’ प्रत्यय लगाकर बना है। जिसका अर्थ है– परिष्करण, परिमार्जन या सृजन की क्रिया। हिंदी शब्द सागर में संस्कृति के शुद्धि, सफाई, संस्कार, सुधार मानसिक-विकास, सजावट, सभ्यता आदि अर्थ बताए गए हैं। Sir Monier Williams us A Sanskrit, English Dictionary में लिखा है। “Making Ready, Preparation, formation hallowing cause creation determination, effort. अर्थात् संस्कृति का अर्थ है तैयार करना, रचना या कृति, संस्कार द्वारा पवित्र करना, संकल्प तथा प्रयत्न द्वारा कार्य की संपन्नता। राहुल संकृत्यायन के अनुसार “एक पीढ़ी आती है, वह अपने आचार-विचार, रुचि-अरुचि, कला संगीत भोजन-छाजन या किसी और आध्यात्मिक धारणा के बारे में कुछ स्नेह की मात्रा अगली पीढ़ी के लिए छोड़ जाती हैं। एक पीढ़ी के बाद दूसरी, दूसरी के बाद तीसरी और आगे बहुत-सी पीढ़ियाँ आती-जाती रहती हैं और सभी अपना प्रभाव या संस्कार अगली पीढ़ी पर छोड़ती जाती है। यही प्रभाव संस्कृति है। “प्रसाद द्विवेदी मनुष्य की श्रेष्ठ साधनाओं को संस्कृति कहते हैं तो दिनकर मानते हैं संस्कृति जिंदगी का एक तरीका’ और यह तरीका सदियों से जमा होकर समाज में छाया रहता है, जिसमें हम जन्म लेते हैं। डॉ. नगेंद्र के अनुसार “संस्कृति मानव-जीवन की वह अवस्था है जहाँ उसके प्रकृत राग द्वेषों का परिमार्जन हो जाता।” जानलू इस संस्कृति पर विस्तार से प्रकाश डालते हैं “The customs, traditions attitudes ideas and symbols which govern social of behavior show a vide variety. Each group, each society, has a set of patterns (cover and covert) which are more or less common to the members, which are passed down from generation to generation and taught to children and which are constantly liable to change. These common patterns are called a culture. अर्थात् आचार-व्यवहार, प्रथाएँ, मान्यताएँ दृष्टिकोण, भावनाएँ और अन्य सामाजिक व्यवहार अनेक तत्त्वों से प्रभाव ग्रहण करते हैं। ये सव प्रत्येक समाज में एक निश्चित पद्धति और परंपरा का निर्माण करते हैं। यह परंपरा समाज के सभी व्यक्तियों की थाती है। इन सभी प्रचलित और सर्वमान्य व्यवहार पद्धतियों को समष्टि रूप में संस्कृति की संज्ञा दी जाती है। वर्गों और मनुष्यों के पारस्परिक संबंध और इनके समस्त सापेक्ष व्यवहार सामान्य रूप से स्वीकृत होकर संस्कृति का रूप खड़ा करते है। (Cultural Sociology) । हिंदी साहित्य ज्ञानकोश भाग-7 मे शंभुनाथ जी ने स्वीकार किया है कि “संस्कृति की कोई सर्वसम्मत परिभाषा नही है। क्योंकि मनुष्य जाति इसके संपूर्ण और अंतिम रूप का निर्धारण नहीं कर पाई है। फिर भी इतना मान लिया गया है कि हर संस्कृति निरंतर, ग्रहण और त्याग का फल है। हर संस्कृति मिश्रण से बनी है और शुद्धतावाद कभी नहीं रहा है। औपनिवेशिक तकाजे से हुए सांस्कृतिक अध्ययनों ने इसे रणभूमि बना दिया। नृवैज्ञानिकों ने इसे ज्यादा स्थानबद्ध कर दिया तो मानववादियों ने पूरे संसार के लिए पश्चिमी सभ्यता से प्रेरित एक ही तरह की परिपूर्ण आधुनिक संस्कृति की कल्पना कर ली।” संस्कृति का स्वरूप स्पष्ट करते हुए वह आगे लिखते हैं। “धर्म जन्म से मिल जाता है। संस्कृति जन्म से नहीं मिलती। यह आनुवांशिक मामला न होकर अपनी परंपराओ और संपूर्ण परिवेश की गतिविधियों से सीखकर अर्जित की 'जाती है। संस्कृति का अर्जन और सर्जन दोनों होता है। अतीत से संबंध होते हुए भी यह पूर्व निर्धारित और बनी-बनाई चीज नहीं है। विश्व को विभिन्न संस्कृतियों के लोग जिस दृष्टिकोण से देखते हैं, उसमें परिवर्तन हमेशा संभव है। इसलिए दुनिया में हर जगह संस्कृति को निरंतरता और परिवर्तन, दोनों संदर्भों में समझने की कोशिश हुई।

संस्कृति की इन परिभाषाओं के आलोक में ही हम भारतीय संस्कृति और उसमें निहित जीवन-मूल्यों पर चर्चा करेंगे। भारत मे अनादि काल से ही मानव अपने परिवार, कुटुंब, समाज और संपूर्ण वसुधा को उत्तरोत्तर महत्त्वपूर्ण एवं उपयोगी बनाने की दृष्टि से निरंतर चिंतन करता रहा है। उसके चिंतन के प्रमुख विषय रहे हैं व्यक्ति पूर्णता को कैसे प्राप्त करे? मानव क्या है? वास्तविक आनंद क्या है? मृत्यु का रहस्य क्या है? क्या केवल शरीर पोषण ही मानव का मूल कर्म है उसका जीवन का उद्देश्य क्या है? सत्य क्या है? आत्मा क्या है? उसका कोई अन्य कर्तव्य भी निश्चित है? इन सभी प्रश्नों पर निरंतर मंथन होता रहा है। भारतीय मनीषियों की विस्तृत चिंतन यात्रा का उद्देश्य एक और जहाँ मानव के जीवन को उदंत भावनाओं से परिपूर्ण करना है वहीं दूसरी ओर यहाँ के तपस्वी दार्शनिक सत्य के अन्वेषण में लगे रहे हैं। उन मनीषियों ने आध्यात्मिक और भौतिक विकास को सुनिश्चित करने के लिए धर्म,

अर्थ, काम और मोक्ष जैसे जीवन के साधन अथवा पुरुषार्थों का बहुमूल्य मंत्र दिया तथा सांस्कृतिक सनातन मूल्यों को स्थापित कर उन्हें निरंतर सुदृढ़ एवं प्रभावी बनाया। जिनमें व्यष्टि और समष्टिगत लोकमंगल के सूत्र निहित है। भारतीय चिंतन धारा सर्वदा इसी उद्देश्य को पूरा करने तथा मानव शुभ के लिए प्रयासरत रही है। भारत मे आत्मोत्थान एवं जीवन शुभ को ध्यान में रखते हुए वेद, उपवेद, वेदांग, दर्शन, स्मृति, इतिहास पुराण, तंत्र, संप्रदाय मत आदि का विपुल साहित्य मानव सभ्यता को संपूर्णता प्रदान करने की खोज है। यहाँ के तीर्थ स्थान व्रत, त्योहार आदि सब जन समुदाय के समक्ष किसी जीवन-मूल्य को ही स्थापित करते हैं। संपूर्ण भारत राष्ट्र में जन्म, पालन-पोषण एवं मरण इसी आलोक साहित्य एवं संस्कृति के मार्गदर्शन में होता है।

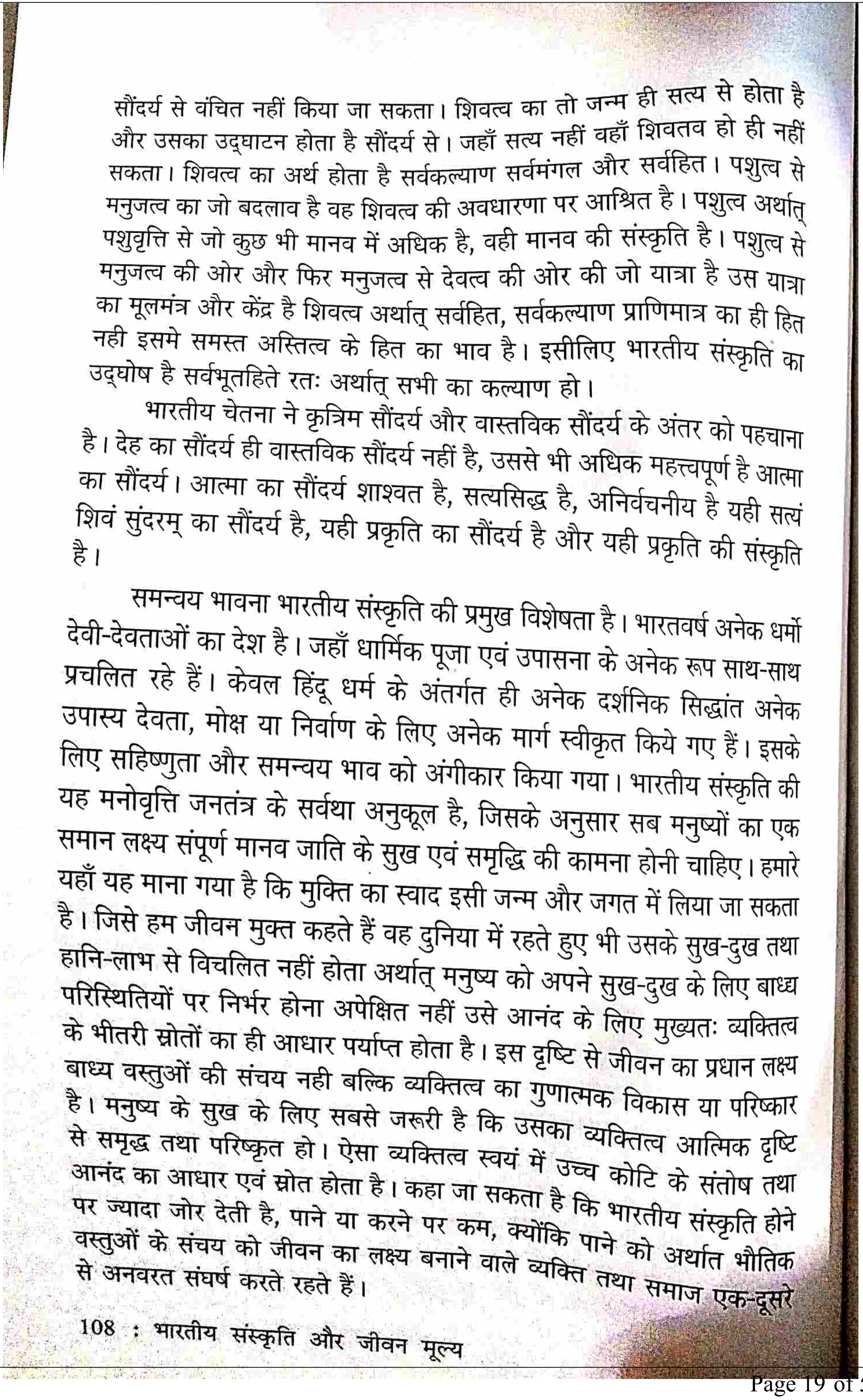
भारतीय संस्कृति यथार्थ में केवल भारत की ही संस्कृति नहीं है, वह तो मानवमात्र की संस्कृति है। संस्कृति के संदर्भ में जो प्रयोग, ज्ञान, भाव, प्रतीक व चेतना भारतीय ऋषियों ने मानवता के समक्ष प्रस्तुत की, वह भारत मे जन्मी तो है, पर यह चेतना केवल भारतवासियों के ही निमित्त हो, ऐसा नहीं है। इस संस्कृति की निष्पत्तियाँ तो सार्वकालिक व सार्वदेशिक होने के साथ-साथ प्राणिमात्र के लिए है। इस भारतीय मनीष के संपर्क में जो भी आया, उसने हमारे ऋषियों की मान्यता को एक मूर्तिमान जीवन दर्शन के रूप में देखा, जाँचा, परखा और उसकी समीक्षा-आलोचना तथा समालोचना की और फिर जो कुछ भी समझ में आया, उसे स्वीकार किया अथवा अस्वीकार कर दिया। भारतीय ऋषि ने अपने जीवन को सदैव एक प्रयोगशाला बनाया और इस प्रयोगशाला में जो भी उपलब्ध हुआ उसे ज्यों-का-त्यों विश्व के समक्ष प्रस्तुत कर दिया। वे सत्यचेता भर बने रहे, वे द्रष्टा बने और सत्य जिसे उन्होंने खोजा और सार्वकालिक समझा उससे ही स्वयं को संस्कारित किया। इस अहंशून्यता और सत्यान्वेषण ने भारतीय मनीषा की अवधारओं व संस्कारों को एक विशेष शाश्वतता प्रदान की। ये ऋषि भारत में जन्में अवश्य, और उन्होंने अपने समस्त प्रयोग भी भारत मे किए, पर उनका उद्देश्य रहा उस चरम सत्य का अन्वेषण, जो सर्वव्यापी है। सत्य को न तो कभी देश से बाँधा जा सकता है, न काल से और न किसी एक विचार से। सत्य तो सदैव देश काल के हर बंधन का अतिक्रमण ही करता है। इसीलिए भारतीय मनीषा द्वारा गाया सत्य मानवमात्र की धरोहर है, काल से परे है तथा देश के बंधन से मुक्त है।

इससे पूर्व कि हम भारतीय संस्कृति के प्रमुख मूल्यों पर विवेचन करें मूल्य शब्द को स्पष्ट कर लेना चाहिए। मूल्य आधुनिक चिंतन का अत्यधिक प्रचलित शब्द है। प्रत्येक विचारक अपने क्षेत्र के अनुसार ही मूल्य को परिभाषित करता है। मूल्य का अँग्रेजी पर्याय वैल्यू लैटिन के वेलेर से आया है, जिसका अर्थ है अच्छा, सुंदर। इस

आधार पर अच्छे या सुंदर लगने वाले, दूसरे शब्दों में इच्छित, को मूल्य कहा जा सकता है। मनोविज्ञान और समाजशास्त्र में मानवीय सहज ज्ञान और इच्छाओं को ही मूल्य विवेचन का आधार माना जाता है। वैयक्तिक इच्छा से हटाकर जब सामाजिक परिवेश पर बल दिया जाता है तो मूल्य की परिभाषा थोड़ी भिन्न हो जाती है। वास्तव में मूल्य वह आधार है जिसके अनुसार मनुष्य अपना पथ निर्धारित करता है और सामाजिक दृष्टि से भले-बुरे सही-गलत का ज्ञान प्राप्त करता है। समाजशास्त्रीय दृष्टि से मूल्य वे निकष कहे जा सकते हैं। जिनके आधार पर समूह या समाज व्यक्तियों, पद्धतियों, उद्देश्यों तथा अन्य सामाजिक सांस्कृतिक विषयों की महत्त्व परीक्षा करता है। मानव के कर्मों की श्रेष्ठता की कसौटी मूल्य कहलाती है। मूल्य में प्रियता, वांछनीयता या काम्यता के साथ एक और कर्म प्रेरक रूप है तो दूसरी और निकष को इस प्रकार कहा जा सकता है कि मूल्य एक व्यापक शब्द है जो सामाजिक, सांस्कृतिक, नैतिक आदि संदर्भो में विभिन्न अर्थ छायाओं का व्यंजक है। तथ्य, आदर्श मान, प्रतिमान और मान्यता इत्यादि मूल्य के सामानांतर शब्द है।

एक विशेष अवधि तक समाज अपने भौगोलिक परिवेश के प्रत्यक्ष अथवा परोक्ष प्रभाव से अपनी आकांक्षाओं एवं आवश्यकताओं के अनुरुप जिस विशिष्ट जीवन-पद्धति का विकास कर लेता है। उन्हीं का चिंतन व्यवस्थित और सैद्धान्तिक निरूपण सांस्कृतिक मूल्यों के रुप में प्रतिफलित होता है। ये मूल्य वास्तव में एक विशेष वातावरण की ही देन होते है। जातीय जीवन के प्रत्येक क्षेत्र तक इन मूल्यों का विस्तार होता है इसलिए इनका प्रभाव स्तर व्यापक होता है। सांस्कृतिक मूल्यों का लक्ष्य व्यक्ति तथा समूह का मंगल रहता है। यद्यपि यह भी सत्य है कि मंगल की स्थिति भी काल सापेक्ष हो सकती है। कल तक जो विचार या आदर्श मंगलमय माना जा रहा हो वह अनिवार्य नहीं है कि आज की बदली हुई परिस्थिति में भी उतना ही सार्थक या महत्त्वपूर्ण सिद्ध हो। परंतु कुछ मूल्य ऐसे भी है जो देश काल की सीमा लाँघकर स्थिर बने रहते है। भारत के संदर्भ में आध्यात्मिकता, अहिंसा, शान्ति आदि मूल्य ऐसे ही हैं। इन्हें स्थाई मूल्य कहा जा सकता है। भारतीय चिंतन में संस्कृति के स्थाई तत्त्व अर्थात् आधारभूत तत्त्व को ही मान्यता है। यह आधारभूत तत्त्व अपरिवर्तनशील हैं, शाश्वत हैं। यही सत्य शिव और सुंदरम है।

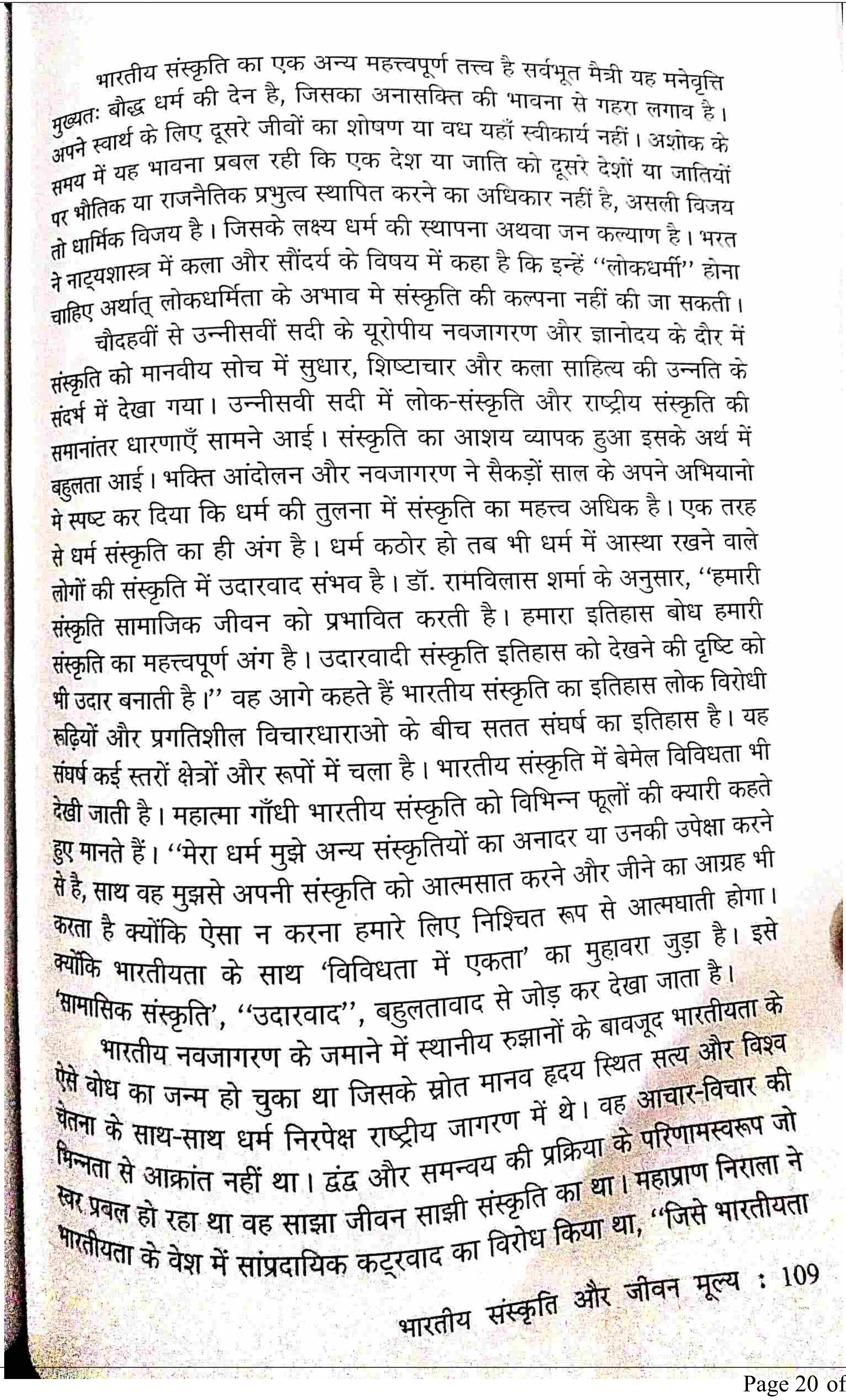
जिससे सत्य का उद्घाटन निरूपण व स्थापन नहीं होता, वह संस्कृति नहीं है, वह मात्र कृति है, कर्म है एक चेष्टा या मात्र भाव है। कोई कृति जब सत्य से अलंकृत होती है तब हम उसे संस्कृति कह सकते हैं और इसके लिए जो प्रयास होते हैं, जो कर्म होते हैं, उसे हम पुरुषार्थ कहते हैं। संस्कृति वह त्रिवेणी है, जिसमें सत्य भी है, शिवत्व भी है और सौंदर्य भी है, ऐसा सत्य संस्कृति का वाहक नहीं बन सकता जिसमें शिवत्व हो, सौंदर्य न हो। इसी प्रकार शिवत्व को भी सत्य और उसके



सौंदर्य से वंचित नहीं किया जा सकता। शिवत्व का तो जन्म ही सत्य से होता है और उसका उद्घाटन होता है सौंदर्य से। जहाँ सत्य नहीं वहाँ शिवतव हो ही नहीं सकता। शिवत्व का अर्थ होता है सर्वकल्याण सर्वमंगल और सर्वहित। पशुत्व से मनुजत्व का जो बदलाव है वह शिवत्व की अवधारणा पर आश्रित है। पशुत्व अर्थात् पशुवृत्ति से जो कुछ भी मानव में अधिक है, वही मानव की संस्कृति है। पशुत्व से मनुजत्व की ओर और फिर मनुजत्व से देवत्व की ओर की जो यात्रा है उस यात्रा का मूलमंत्र और केंद्र है शिवत्व अर्थात् सर्वहित, सर्वकल्याण प्राणिमात्र का ही हित नही इसमे समस्त अस्तित्व के हित का भाव है। इसीलिए भारतीय संस्कृति का उद्घोष है सर्वभूतहिते रतः अर्थात् सभी का कल्याण हो।

भारतीय चेतना ने कृत्रिम सौंदर्य और वास्तविक सौंदर्य के अंतर को पहचाना है। देह का सौंदर्य ही वास्तविक सौंदर्य नहीं है, उससे भी अधिक महत्त्वपूर्ण है आत्मा का सौंदर्य। आत्मा का सौंदर्य शाश्वत है, सत्यसिद्ध है, अनिर्वचनीय है यही सत्यं शिवं सुंदरम् का सौंदर्य है, यही प्रकृति का सौंदर्य है और यही प्रकृति की संस्कृति है।

समन्वय भावना भारतीय संस्कृति की प्रमुख विशेषता है। भारतवर्ष अनेक धर्मो देवी-देवताओं का देश है। जहाँ धार्मिक पूजा एवं उपासना के अनेक रूप साथ-साथ प्रचलित रहे हैं। केवल हिंदू धर्म के अंतर्गत ही अनेक दर्शनिक सिद्धांत अनेक उपास्य देवता, मोक्ष या निर्वाण के लिए अनेक मार्ग स्वीकृत किये गए हैं। इसके लिए सहिष्णुता और समन्वय भाव को अंगीकार किया गया। भारतीय संस्कृति की यह मनोवृत्ति जनतंत्र के सर्वथा अनुकूल है, जिसके अनुसार सब मनुष्यों का एक समान लक्ष्य संपूर्ण मानव जाति के सुख एवं समृद्धि की कामना होनी चाहिए। हमारे यहाँ यह माना गया है कि मुक्ति का स्वाद इसी जन्म और जगत में लिया जा सकता है। जिसे हम जीवन मुक्त कहते हैं वह दुनिया में रहते हुए भी उसके सुख-दुख तथा हानि-लाभ से विचलित नहीं होता अर्थात् मनुष्य को अपने सुख-दुख के लिए बाध्य परिस्थितियों पर निर्भर होना अपेक्षित नहीं उसे आनंद के लिए मुख्यतः व्यक्तित्व के भीतरी स्रोतों का ही आधार पर्याप्त होता है। इस दृष्टि से जीवन का प्रधान लक्ष्य बाध्य वस्तुओं की संचय नही बल्कि व्यक्तित्व का गुणात्मक विकास या परिष्कार है। मनुष्य के सुख के लिए सबसे जरूरी है कि उसका व्यक्तित्व आत्मिक दृष्टि से समृद्ध तथा परिष्कृत हो। ऐसा व्यक्तित्व स्वयं में उच्च कोटि के संतोष तथा आनंद का आधार एवं स्रोत होता है। कहा जा सकता है कि भारतीय संस्कृति होने पर ज्यादा जोर देती है, पाने या करने पर कम, क्योंकि पाने को अर्थात भौतिक वस्तुओं के संचय को जीवन का लक्ष्य बनाने वाले व्यक्ति तथा समाज एक-दूसरे से अनवरत संघर्ष करते रहते हैं।



भारतीय संस्कृति का एक अन्य महत्त्वपूर्ण तत्त्व है सर्वभूत मैत्री यह मनेवृत्ति मुख्यतः बौद्ध धर्म की देन है, जिसका अनासक्ति की भावना से गहरा लगाव है। अपने स्वार्थ के लिए दूसरे जीवों का शोषण या वध यहाँ स्वीकार्य नहीं। अशोक के समय में यह भावना प्रबल रही कि एक देश या जाति को दूसरे देशों या जातियों पर भौतिक या राजनैतिक प्रभुत्व स्थापित करने का अधिकार नहीं है, असली विजय तो धार्मिक विजय है। जिसके लक्ष्य धर्म की स्थापना अथवा जन कल्याण है। भरत ने नाट्यशास्त्र में कला और सौंदर्य के विषय में कहा है कि इन्हें ''लोकधर्मी'' होना चाहिए अर्थात् लोकधर्मिता के अभाव मे संस्कृति की कल्पना नहीं की जा सकती।

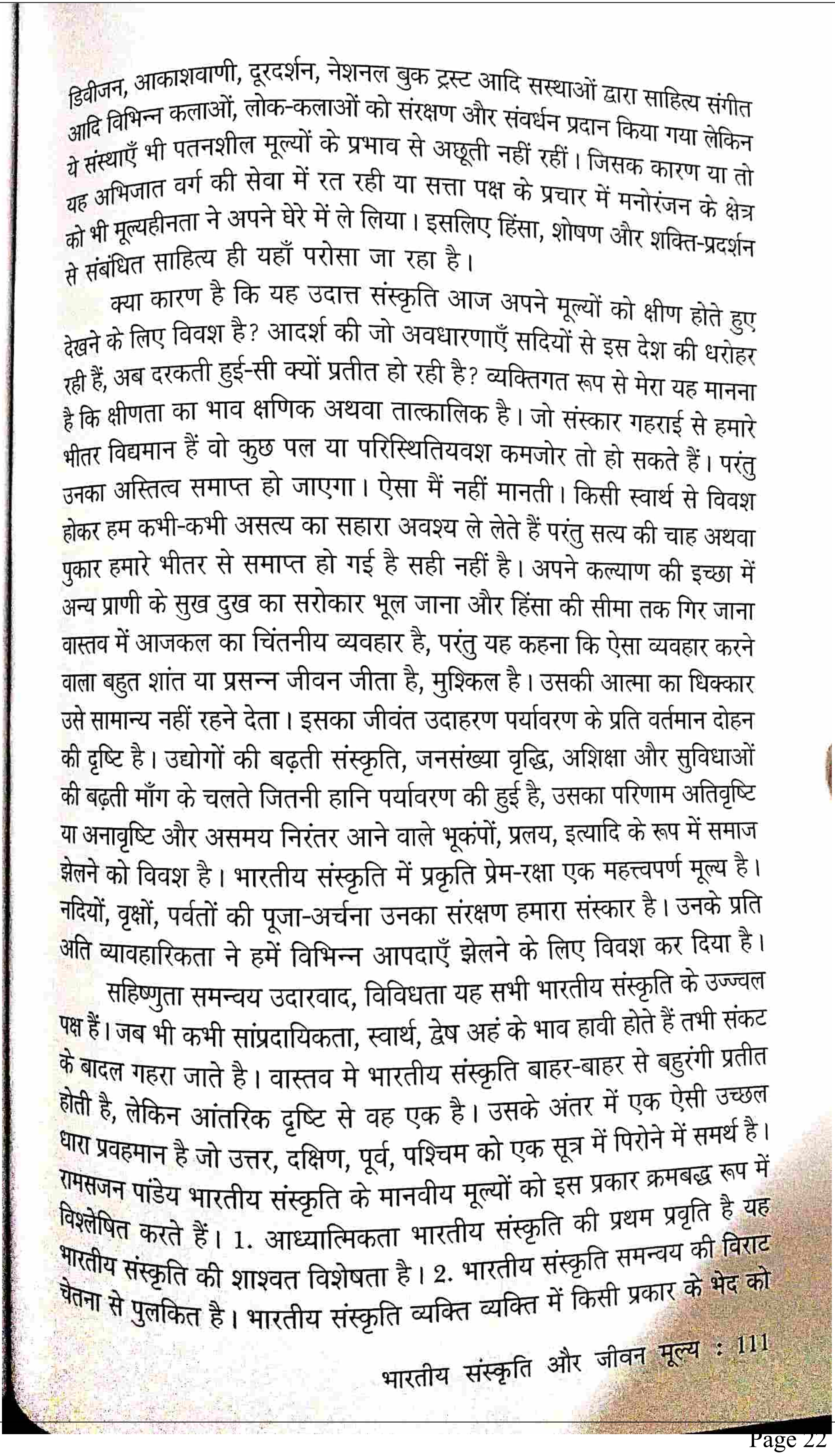
चौदहवीं से उन्नीसवीं सदी के यूरोपीय नवजागरण और ज्ञानोदय के दौर में संस्कृति को मानवीय सोच में सुधार, शिष्टाचार और कला साहित्य की उन्नति के संदर्भ में देखा गया। उन्नीसवी सदी में लोक-संस्कृति और राष्ट्रीय संस्कृति की समानांतर धारणाएँ सामने आई। संस्कृति का आशय व्यापक हुआ इसके अर्थ में बहुलता आई। भक्ति आंदोलन और नवजागरण ने सैकड़ों साल के अपने अभियानो मे स्पष्ट कर दिया कि धर्म की तुलना में संस्कृति का महत्त्व अधिक है। एक तरह से धर्म संस्कृति का ही अंग है। धर्म कठोर हो तब भी धर्म में आस्था रखने वाले लोगों की संस्कृति में उदारवाद संभव है। डॉ. रामविलास शर्मा के अनुसार, ''हमारी संस्कृति सामाजिक जीवन को प्रभावित करती है। हमारा इतिहास बोध हमारी संस्कृति का महत्त्वपूर्ण अंग है। उदारवादी संस्कृति इतिहास को देखने की दृष्टि को भी उदार बनाती है।'' वह आगे कहते हैं भारतीय संस्कृति का इतिहास लोक विरोधी रूढ़ियों और प्रगतिशील विचारधाराओ के बीच सतत संघर्ष का इतिहास है। यह संघर्ष कई स्तरों क्षेत्रों और रूपों में चला है। भारतीय संस्कृति में बेमेल विविधता भी देखी जाती है। महात्मा गाँधी भारतीय संस्कृति को विभिन्न फूलों की क्यारी कहते हुए मानते हैं। ''मेरा धर्म मुझे अन्य संस्कृतियों का अनादर या उनकी उपेक्षा करने से है, साथ वह मुझसे अपनी संस्कृति को आत्मसात करने और जीने का आग्रह भी करता है क्योंकि ऐसा न करना हमारे लिए निश्चित रूप से आत्मघाती होगा। क्योंकि भारतीयता के साथ 'विविधता में एकता' का मुहावरा जुड़ा है। इसे 'सामासिक संस्कृति', ''उदारवाद'', बहुलतावाद से जोड़ कर देखा जाता है।

भारतीय नवजागरण के जमाने में स्थानीय रुझानों के बावजूद भारतीयता के ऐसे बोध का जन्म हो चुका था जिसके स्रोत मानव हृदय स्थित सत्य और विश्व चेतना के साथ-साथ धर्म निरपेक्ष राष्ट्रीय जागरण में थे। वह आचार-विचार की भिन्नता से आक्रांत नहीं था। द्वंद्व और समन्वय की प्रक्रिया के परिणामस्वरूप जो स्वर प्रबल हो रहा था वह साझा जीवन साझी संस्कृति का था। महाप्राण निराला ने भारतीयता के वेश में सांप्रदायिक कट्टरवाद का विरोध किया था, ''जिसे भारतीयता

के गर्व से दूसरे तुच्छ जान पड़ते हैं, वह भारतीयता मे कुछ रूढ़ियों से चलती हुई अभारतीयता है। यदि किसी सृष्टि को प्रगतिशील रखना है तो इसकी शक्ति बढ़ाने के लिए विजातीय भावों का समावेश करना अत्यंत आवश्यक है। वे भारतीय संस्कृति को छुई-मुई नहीं समझते थे।

भारतीयता में राष्ट्रीय अखंडता के आयाम के साथ 'सार्वदेशिकता' और अखंड मानवता के तत्त्व भी थे। उस युग का भूमंडलीकरण पश्चिमीकरण का पर्याय नहीं था। गाँधी जी की भारतीयता में भी धार्मिक तत्त्व नहीं है, यह कहना उचित न होगा परंतु अपने धर्म के बल पर वह यह कहने की शक्ति अर्जित करते हैं कि मानव जाति को अहिंसा का संदेश सुनाने का काम भारत ही करेगा। क्या भारत एक धर्म तंत्रीय देश होगा और हिंदू धर्म के सिद्धांत अहिंदुओं पर थोपे जाएँगे? मैं नहीं समझता कि ऐसा होगा। यदि हुआ तो यह एक ऐसा देश नहीं रह जाएगा जिसकी ओर एशियाई और अफ्रीकी प्रजातियाँ ही नहीं बल्कि समूची दुनिया उम्मीद की नजरों से देख रही है।

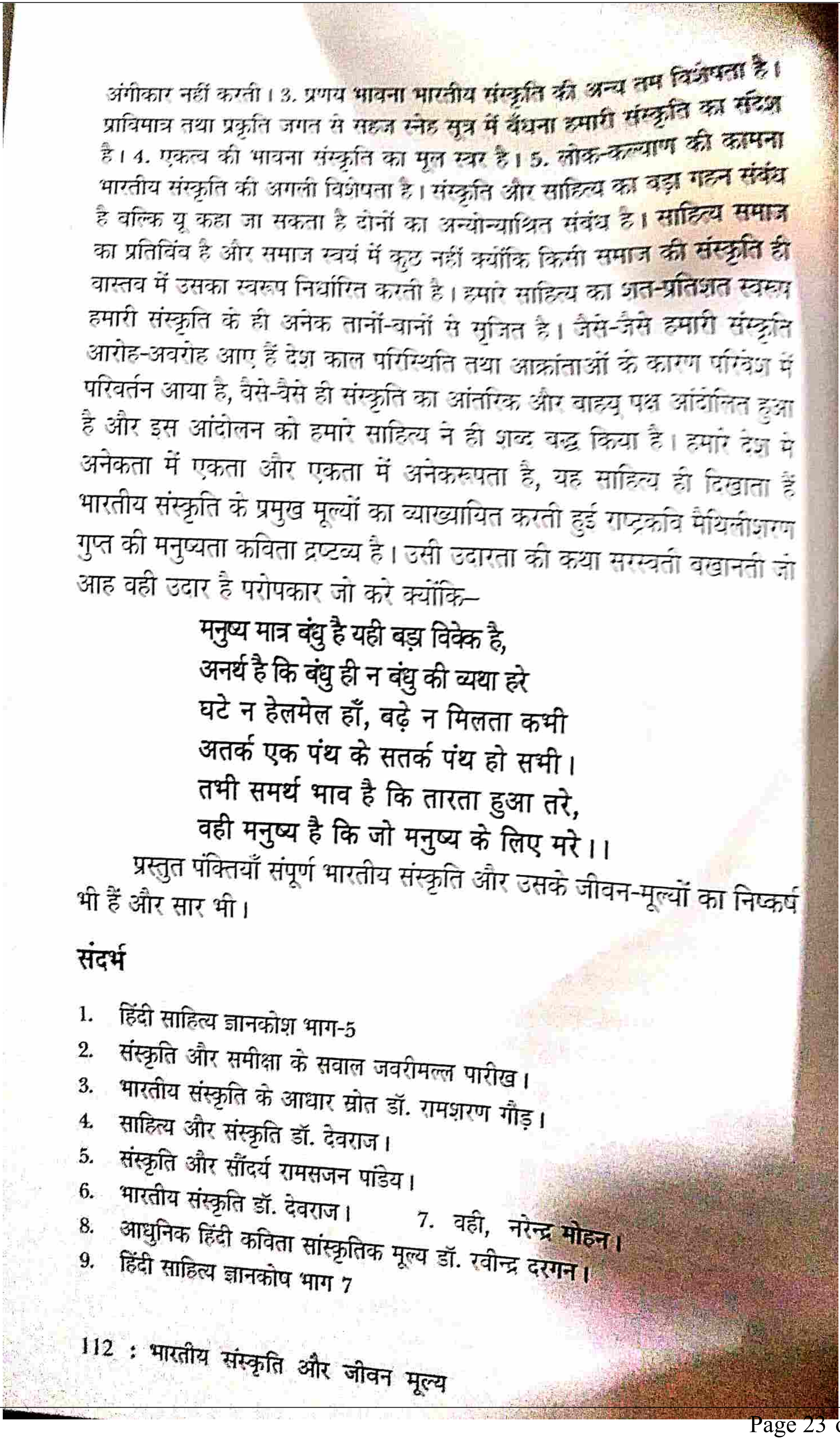
विद्यानिवास मिश्र ने भी कहा है कि ''भारतीय परंपरा की यह विलक्षणता है कि वह भारत में ओतप्रोत होते हुए भी भारत तक ही सीमित नहीं है। वह किसी एक मजहब, ईश्वर की चुनी हुई किसी एक जाति, किसी एक तंत्र से बंधी नहीं है। उसमें, अपने को अतिक्रमण करने की क्षमता है। भारतीय संस्कृति मठों, मंदिरों, संग्रहालयों और धर्म-ध्वजों की बड़ी-बड़ी दुकानों में नहीं मिलेगी। नानात्व में एकता ही तो भारतीयता है। व्यवहार और परमार्थ की अलग-अलग पहचान ही तो भारतीयता है। भाव और ज्ञान का एकत्व ही तो भारतीयता है। वास्तव में हर संस्कार का संबंध चेतना के संस्कार से है। इसलिए हममें संवेदनाओं के क्षेत्र का जितना विस्तार होगा, हमारी संस्कृति भी उतनी ही संपन्न, व्यापकतर और ग्रहणशील होगी। संस्कृति का धर्म, अर्थ, काम और लोभ के उद्देश्य से मुख्यतः मनोरंजन में सीमित होते जाना और मूल्य दृष्टि से उसकी विच्छिन्नता उत्तर आधुनिक समय में एक बड़ी चुनौती बनती जा रही है। जवरीमल्ल पारेख के अनुसार हमारा राष्ट्र आज जिन भयावह स्थितियों और चुनौतियों से गुजर रहा है, वैसे हालत और वैसे चुनौतियों स्वतंत्रता प्राप्ति के बाद के किसी भी दौर में उपस्थिति नहीं रही। कड़े संघर्ष के बाद हासिल लोकतांत्रिक और जनोन्मुखी संस्थाओ और मूल्यों को कमजोर किया जा रहा है। जनता की एकता को छिन्न-भिन्न किया जा रहा है। जाति, धर्म, संप्रदाय, भाषा, क्षेत्र आदि के पृथकतावादी और फूटपरस्त नारों के इर्द-गिर्द जनता को लामबंद किया जा रहा है और इस प्रक्रिया में एकता तथा अखंडता के लिए खतरा लगातार गंभीर होता जा रहा है। सांस्कृतिक विकास में कला रूपों का महत्त्व बहुत अधिक है। स्वतंत्रता प्राप्ति के बाद साहित्य अकादमी, संगीत नाटक अकादमी, राष्ट्रीय नाट्य विद्यालय फिल्म वित्त निगम, फिल्म



डिवीजन, आकाशवाणी, दूरदर्शन, नेशनल बुक ट्रस्ट आदि सस्थाओं द्वारा साहित्य संगीत आदि विभिन्न कलाओं, लोक-कलाओं को संरक्षण और संवर्धन प्रदान किया गया लेकिन ये संस्थाएँ भी पतनशील मूल्यों के प्रभाव से अछूती नहीं रहीं। जिसक कारण या तो यह अभिजात वर्ग की सेवा में रत रही या सत्ता पक्ष के प्रचार में मनोरंजन के क्षेत्र को भी मूल्यहीनता ने अपने घेरे में ले लिया। इसलिए हिंसा, शोषण और शक्ति-प्रदर्शन से संबंधित साहित्य ही यहाँ परोसा जा रहा है।

क्या कारण है कि यह उदात्त संस्कृति आज अपने मूल्यों को क्षीण होते हुए देखने के लिए विवश है? आदर्श की जो अवधारणाएँ सदियों से इस देश की धरोहर रही हैं, अब दरकती हुई-सी क्यों प्रतीत हो रही है? व्यक्तिगत रूप से मेरा यह मानना है कि क्षीणता का भाव क्षणिक अथवा तात्कालिक है। जो संस्कार गहराई से हमारे भीतर विद्यमान हैं वो कुछ पल या परिस्थितियवश कमजोर तो हो सकते हैं। परंतु उनका अस्तित्व समाप्त हो जाएगा। ऐसा मैं नहीं मानती। किसी स्वार्थ से विवश होकर हम कभी-कभी असत्य का सहारा अवश्य ले लेते हैं परंतु सत्य की चाह अथवा पुकार हमारे भीतर से समाप्त हो गई है सही नहीं है। अपने कल्याण की इच्छा में अन्य प्राणी के सुख दुख का सरोकार भूल जाना और हिंसा की सीमा तक गिर जाना वास्तव में आजकल का चिंतनीय व्यवहार है, परंतु यह कहना कि ऐसा व्यवहार करने वाला बहुत शांत या प्रसन्न जीवन जीता है, मुश्किल है। उसकी आत्मा का धिक्कार उसे सामान्य नहीं रहने देता। इसका जीवंत उदाहरण पर्यावरण के प्रति वर्तमान दोहन की दृष्टि है। उद्योगों की बढ़ती संस्कृति, जनसंख्या वृद्धि, अशिक्षा और सुविधाओं की बढ़ती माँग के चलते जितनी हानि पर्यावरण की हुई है, उसका परिणाम अतिवृष्टि या अनावृष्टि और असमय निरंतर आने वाले भूकंपों, प्रलय, इत्यादि के रूप में समाज झेलने को विवश है। भारतीय संस्कृति में प्रकृति प्रेम-रक्षा एक महत्त्वपर्ण मूल्य है। नदियों, वृक्षों, पर्वतों की पूजा-अर्चना उनका संरक्षण हमारा संस्कार है। उनके प्रति अति व्यावहारिकता ने हमें विभिन्न आपदाएँ झेलने के लिए विवश कर दिया है।

सहिष्णुता समन्वय उदारवाद, विविधता यह सभी भारतीय संस्कृति के उज्ज्वल पक्ष हैं। जब भी कभी सांप्रदायिकता, स्वार्थ, द्वेष अहं के भाव हावी होते हैं तभी संकट के बादल गहरा जाते है। वास्तव मे भारतीय संस्कृति बाहर-बाहर से बहुरंगी प्रतीत होती है, लेकिन आंतरिक दृष्टि से वह एक है। उसके अंतर में एक ऐसी उच्छल धारा प्रवहमान है जो उत्तर, दक्षिण, पूर्व, पश्चिम को एक सूत्र में पिरोने में समर्थ है। रामसजन पांडेय भारतीय संस्कृति के मानवीय मूल्यों को इस प्रकार क्रमबद्ध रूप में विश्लेषित करते हैं। 1. आध्यात्मिकता भारतीय संस्कृति की प्रथम प्रवृति है यह भारतीय संस्कृति की शाश्वत विशेषता है। 2. भारतीय संस्कृति समन्वय की विराट चेतना से पुलकित है। भारतीय संस्कृति व्यक्ति व्यक्ति में किसी प्रकार के भेद को



अंगीकार नहीं करती। 3. प्रणय भावना भारतीय संस्कृति की अन्य तम विशेषता है। प्राणिमात्र तथा प्रकृति जगत से सहज स्नेह सूत्र में बँधना हमारी संस्कृति का संदेश है। 4. एकत्व की भावना संस्कृति का मूल स्वर है। 5. लोक-कल्याण की कामना भारतीय संस्कृति की अगली विशेषता है। संस्कृति और साहित्य का बड़ा गहन संबंध है बल्कि यू कहा जा सकता है दोनों का अन्योन्याश्रित संबंध है। साहित्य समाज का प्रतिबिंब है और समाज स्वयं में कुछ नहीं क्योंकि किसी समाज की संस्कृति ही वास्तव में उसका स्वरूप निर्धारित करती है। हमारे साहित्य का शत-प्रतिशत स्वरूप हमारी संस्कृति के ही अनेक तानों-बानों से सृजित है। जैसे-जैसे हमारी संस्कृति आरोह-अवरोह आए हैं देश काल परिस्थिति तथा आक्रांताओं के कारण परिवेश में परिवर्तन आया है, वैसे-वैसे ही संस्कृति का आंतरिक और बाह्य पक्ष आंदोलित हुआ है और इस आंदोलन को हमारे साहित्य ने ही शब्द बद्ध किया है। हमारे देश में अनेकता में एकता और एकता में अनेकरूपता है, यह साहित्य ही दिखाता है भारतीय संस्कृति के प्रमुख मूल्यों का व्याख्यायित करती हुई राष्ट्रकवि मैथिलीशरण गुप्त की मनुष्यता कविता द्रष्टव्य है। उसी उदारता की कथा सरस्वती बखानती जो आह वही उदार है परोपकार जो करे क्योंकि–

मनुष्य मात्र बंधु है यही बड़ा विवेक है,
अनर्थ है कि बंधु ही न बंधु की व्यथा हरे
घटे न हेलमेल हाँ, बढ़े न भिन्नता कभी
अतर्क एक पंथ के सतर्क पंथ हो सभी।
तभी समर्थ भाव है कि तारता हुआ तरे,
वही मनुष्य है कि जो मनुष्य के लिए मरे।।

प्रस्तुत पंक्तियाँ संपूर्ण भारतीय संस्कृति और उसके जीवन-मूल्यों का निष्कर्ष भी हैं और सार भी।

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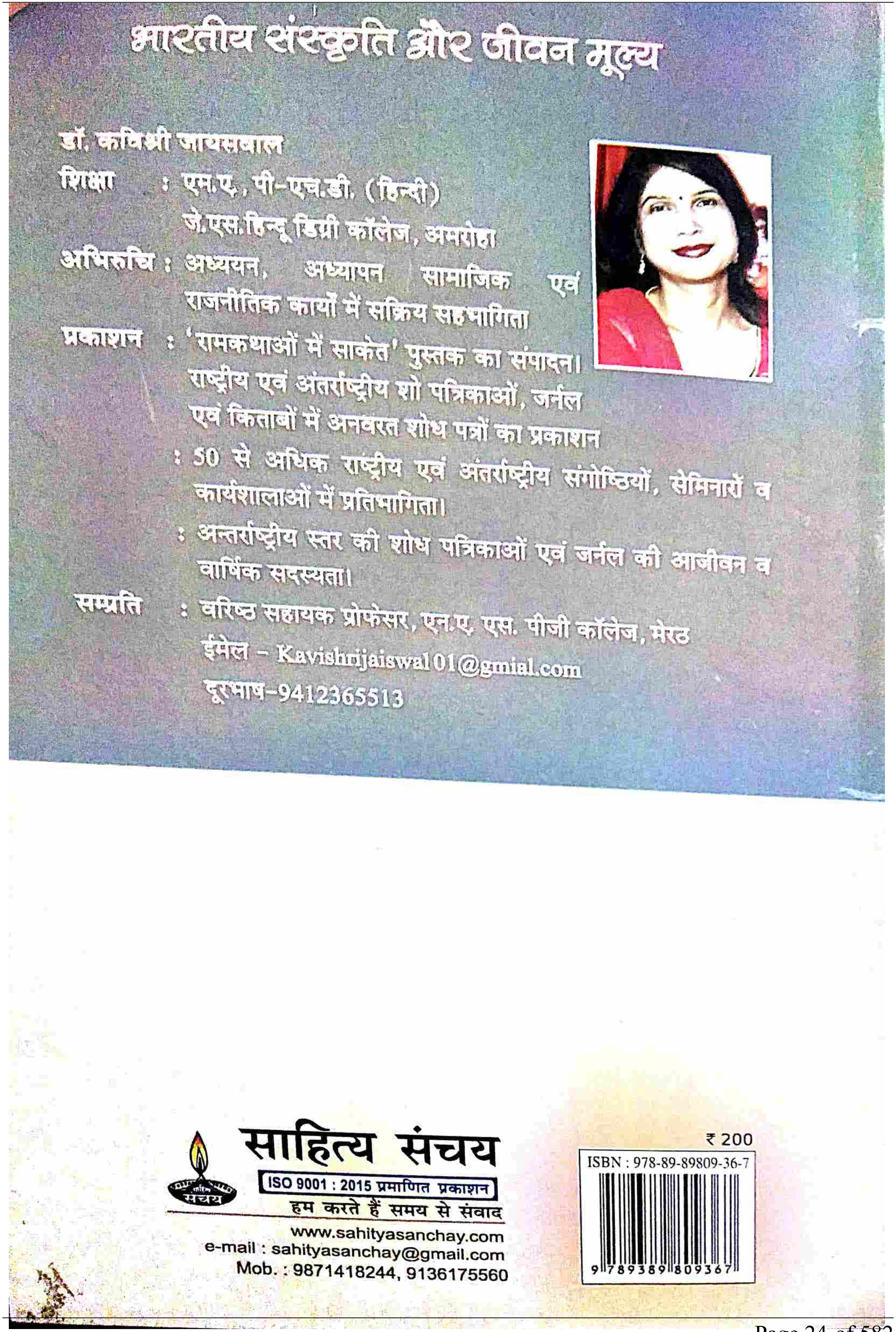

भारतीय संस्कृति और जीवन मूल्य

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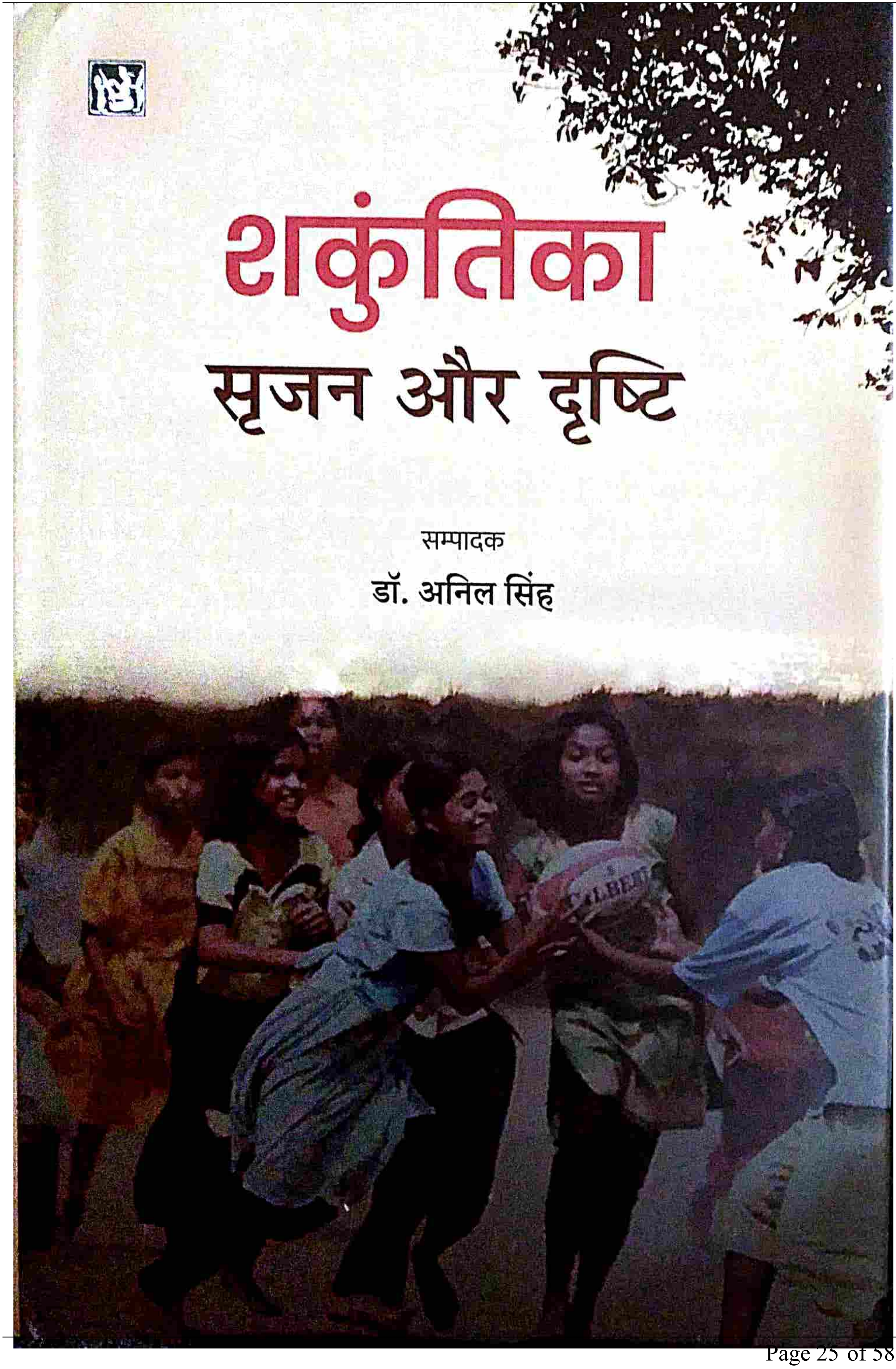

शकुंतिका

सृजन और दृष्टि

सम्पादक

डॉ. अनिल सिंह

क्रम

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संस्कृति, परम्परा और नारी-चेतना

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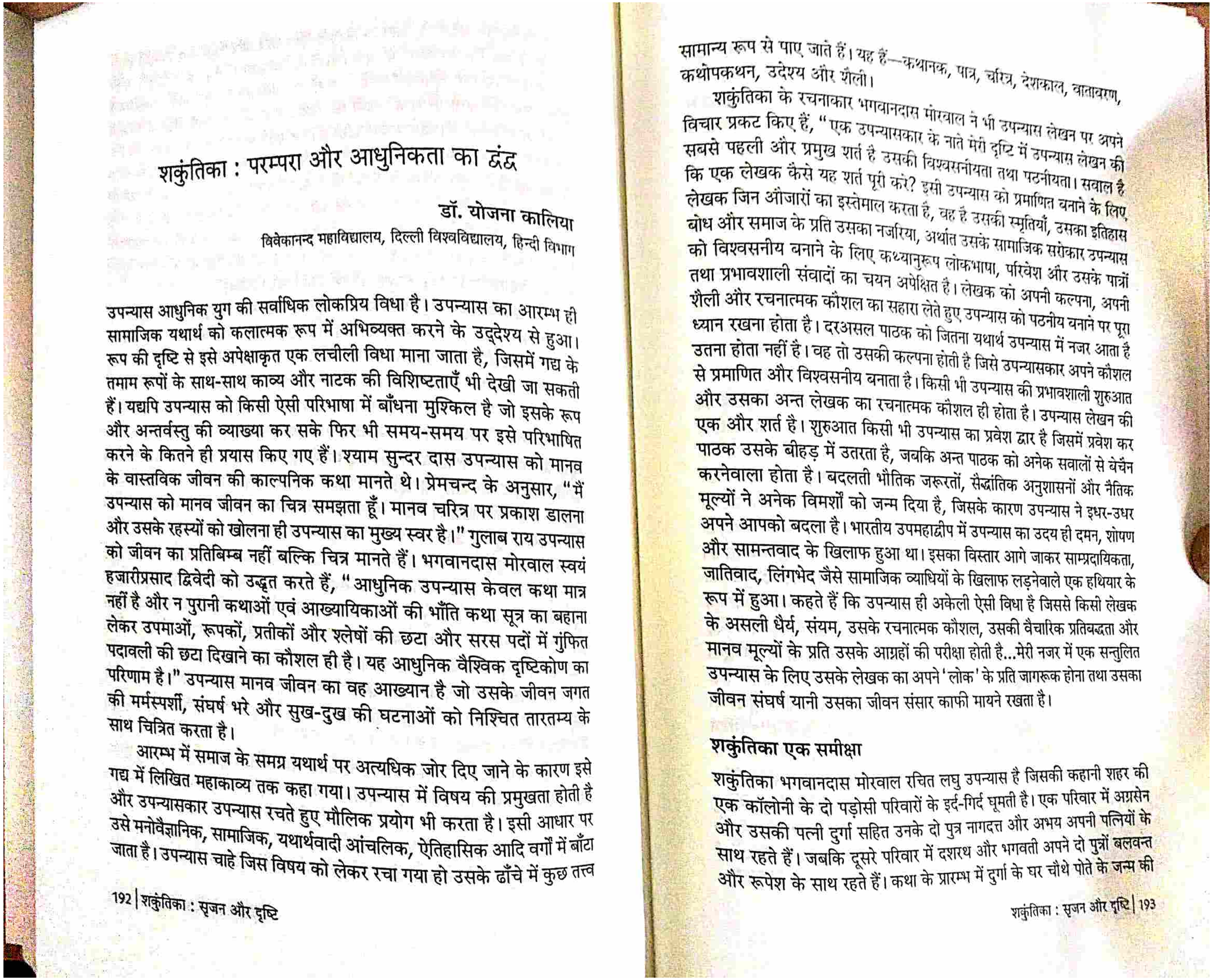
पितृसत्ता, स्त्री और मुक्ति के प्रश्न



शकुंतिका : परम्परा और आधुनिकता का द्वंद्व

डॉ. योजना कालिया
विवेकानन्द महाविद्यालय, दिल्ली विश्वविद्यालय, हिन्दी विभाग

उपन्यास आधुनिक युग की सर्वाधिक लोकप्रिय विधा है। उपन्यास का आरम्भ ही सामाजिक यथार्थ को कलात्मक रूप में अभिव्यक्त करने के उद्देश्य से हुआ। रूप की दृष्टि से इसे अपेक्षाकृत एक लचीली विधा माना जाता है, जिसमें गद्य के तमाम रूपों के साथ-साथ काव्य और नाटक की विशिष्टताएँ भी देखी जा सकती हैं। यद्यपि उपन्यास को किसी ऐसी परिभाषा में बाँधना मुश्किल है जो इसके रूप और अन्तर्वस्तु की व्याख्या कर सके फिर भी समय-समय पर इसे परिभाषित करने के कितने ही प्रयास किए गए हैं। श्याम सुन्दर दास उपन्यास को मानव के वास्तविक जीवन की काल्पनिक कथा मानते थे। प्रेमचन्द के अनुसार, "मैं उपन्यास को मानव जीवन का चित्र समझता हूँ। मानव चरित्र पर प्रकाश डालना और उसके रहस्यों को खोलना ही उपन्यास का मुख्य स्वर है।" गुलाब राय उपन्यास को जीवन का प्रतिबिम्ब नहीं बल्कि चित्र मानते हैं। भगवानदास मोरवाल स्वयं हजारीप्रसाद द्विवेदी को उद्धृत करते हैं, "आधुनिक उपन्यास केवल कथा मात्र नहीं है और न पुरानी कथाओं एवं आख्यायिकाओं की भाँति कथा सूत्र का बहाना लेकर उपमाओं, रूपकों, प्रतीकों और श्लेषों की छटा और सरस पदों में गुंफित पदावली की छटा दिखाने का कौशल ही है। यह आधुनिक वैश्विक दृष्टिकोण का परिणाम है।" उपन्यास मानव जीवन का वह आख्यान है जो उसके जीवन जगत की मर्मस्पर्शी, संघर्ष भरे और सुख-दुख की घटनाओं को निश्चित तारतम्य के साथ चित्रित करता है।

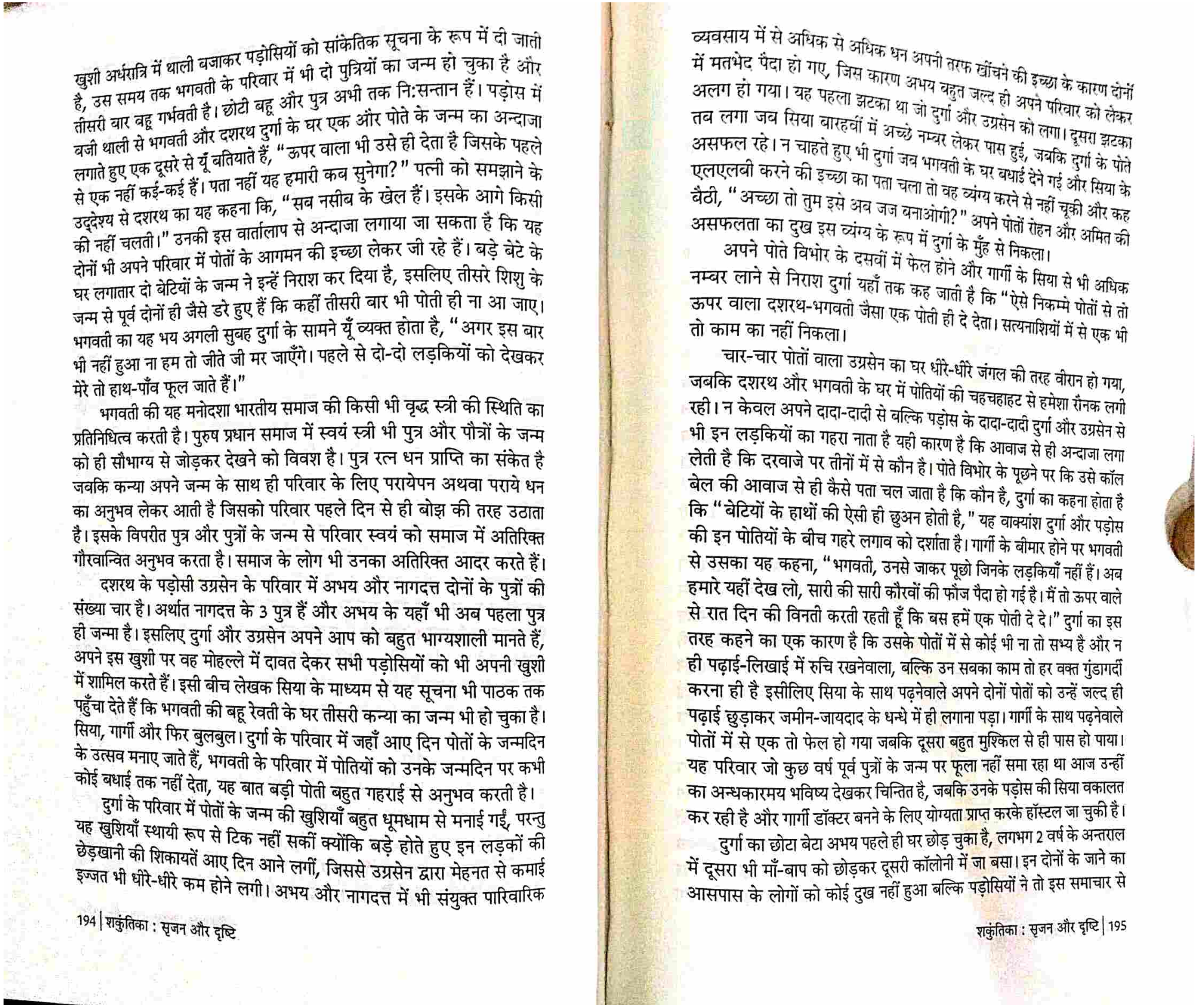
आरम्भ में समाज के समग्र यथार्थ पर अत्यधिक जोर दिए जाने के कारण इसे गद्य में लिखित महाकाव्य तक कहा गया। उपन्यास में विषय की प्रमुखता होती है और उपन्यासकार उपन्यास रचते हुए मौलिक प्रयोग भी करता है। इसी आधार पर उसे मनोवैज्ञानिक, सामाजिक, यथार्थवादी आंचलिक, ऐतिहासिक आदि वर्गों में बाँटा जाता है। उपन्यास चाहे जिस विषय को लेकर रचा गया हो उसके ढाँचे में कुछ तत्त्व

सामान्य रूप से पाए जाते हैं। यह हैं—कथानक, पात्र, चरित्र, देशकाल, वातावरण, कथोपकथन, उद्देश्य और शैली।

शकुंतिका के रचनाकार भगवानदास मोरवाल ने भी उपन्यास लेखन पर अपने विचार प्रकट किए हैं, "एक उपन्यासकार के नाते मेरी दृष्टि में उपन्यास लेखन की सबसे पहली और प्रमुख शर्त है उसकी विश्वसनीयता तथा पठनीयता। सवाल है कि एक लेखक कैसे यह शर्त पूरी करे? इसी उपन्यास को प्रमाणित बनाने के लिए लेखक जिन औजारों का इस्तेमाल करता है, वह है उसकी स्मृतियाँ, उसका इतिहास बोध और समाज के प्रति उसका नजरिया, अर्थात उसके सामाजिक सरोकार उपन्यास को विश्वसनीय बनाने के लिए कथ्यानुरूप लोकभाषा, परिवेश और उसके पात्रों तथा प्रभावशाली संवादों का चयन अपेक्षित है। लेखक को अपनी कल्पना, अपनी शैली और रचनात्मक कौशल का सहारा लेते हुए उपन्यास को पठनीय बनाने पर पूरा ध्यान रखना होता है। दरअसल पाठक को जितना यथार्थ उपन्यास में नजर आता है उतना होता नहीं है। वह तो उसकी कल्पना होती है जिसे उपन्यासकार अपने कौशल से प्रमाणित और विश्वसनीय बनाता है। किसी भी उपन्यास की प्रभावशाली शुरुआत और उसका अन्त लेखक का रचनात्मक कौशल ही होता है। उपन्यास लेखन की एक और शर्त है। शुरुआत किसी भी उपन्यास का प्रवेश द्वार है जिसमें प्रवेश कर पाठक उसके बीहड़ में उतरता है, जबकि अन्त पाठक को अनेक सवालों से बेचैन करनेवाला होता है। बदलती भौतिक जरूरतों, सैद्धांतिक अनुशासनों और नैतिक मूल्यों ने अनेक विमर्शों को जन्म दिया है, जिसके कारण उपन्यास ने इधर-उधर अपने आपको बदला है। भारतीय उपमहाद्वीप में उपन्यास का उदय ही दमन, शोषण और सामन्तवाद के खिलाफ हुआ था। इसका विस्तार आगे जाकर साम्प्रदायिकता, जातिवाद, लिंगभेद जैसे सामाजिक व्याधियों के खिलाफ लड़नेवाले एक हथियार के रूप में हुआ। कहते हैं कि उपन्यास ही अकेली ऐसी विधा है जिससे किसी लेखक के असली धैर्य, संयम, उसके रचनात्मक कौशल, उसकी वैचारिक प्रतिबद्धता और मानव मूल्यों के प्रति उसके आग्रहों की परीक्षा होती है...मेरी नजर में एक सन्तुलित उपन्यास के लिए उसके लेखक का अपने 'लोक' के प्रति जागरूक होना तथा उसका जीवन संघर्ष यानी उसका जीवन संसार काफी मायने रखता है।

शकुंतिका एक समीक्षा

शकुंतिका भगवानदास मोरवाल रचित लघु उपन्यास है जिसकी कहानी शहर की एक कॉलोनी के दो पड़ोसी परिवारों के इर्द-गिर्द घूमती है। एक परिवार में अग्रसेन और उसकी पत्नी दुर्गा सहित उनके दो पुत्र नागदत्त और अभय अपनी पत्नियों के साथ रहते हैं। जबकि दूसरे परिवार में दशरथ और भगवती अपने दो पुत्रों बलवन्त और रूपेश के साथ रहते हैं। कथा के प्रारम्भ में दुर्गा के घर चौथे पोते के जन्म की



खुशी अर्धरात्रि में थाली बजाकर पड़ोसियों को सांकेतिक सूचना के रूप में दी जाती है, उस समय तक भगवती के परिवार में भी दो पुत्रियों का जन्म हो चुका है और तीसरी बार बहू गर्भवती है। छोटी बहू और पुत्र अभी तक नि:सन्तान हैं। पड़ोस में बजी थाली से भगवती और दशरथ दुर्गा के घर एक और पोते के जन्म का अन्दाजा लगाते हुए एक दूसरे से यूँ बतियाते हैं, "ऊपर वाला भी उसे ही देता है जिसके पहले से एक नहीं कई-कई हैं। पता नहीं यह हमारी कब सुनेगा?" पत्नी को समझाने के उद्देश्य से दशरथ का यह कहना कि, "सब नसीब के खेल हैं। इसके आगे किसी की नहीं चलती।" उनकी इस वार्तालाप से अन्दाजा लगाया जा सकता है कि यह दोनों भी अपने परिवार में पोतों के आगमन की इच्छा लेकर जी रहे हैं। बड़े बेटे के घर लगातार दो बेटियों के जन्म ने इन्हें निराश कर दिया है, इसलिए तीसरे शिशु के जन्म से पूर्व दोनों ही जैसे डरे हुए हैं कि कहीं तीसरी बार भी पोती ही ना आ जाए। भगवती का यह भय अगली सुबह दुर्गा के सामने यूँ व्यक्त होता है, "अगर इस बार भी नहीं हुआ ना हम तो जीते जी मर जाएँगे। पहले से दो-दो लड़कियों को देखकर मेरे तो हाथ-पाँव फूल जाते हैं।"

भगवती की यह मनोदशा भारतीय समाज की किसी भी वृद्ध स्त्री की स्थिति का प्रतिनिधित्व करती है। पुरुष प्रधान समाज में स्वयं स्त्री भी पुत्र और पौत्रों के जन्म को ही सौभाग्य से जोड़कर देखने को विवश है। पुत्र रत्न धन प्राप्ति का संकेत है जबकि कन्या अपने जन्म के साथ ही परिवार के लिए परायेपन अथवा पराये धन का अनुभव लेकर आती है जिसको परिवार पहले दिन से ही बोझ की तरह उठाता है। इसके विपरीत पुत्र और पुत्रों के जन्म से परिवार स्वयं को समाज में अतिरिक्त गौरवान्वित अनुभव करता है। समाज के लोग भी उनका अतिरिक्त आदर करते हैं।

दशरथ के पड़ोसी उग्रसेन के परिवार में अभय और नागदत्त दोनों के पुत्रों की संख्या चार है। अर्थात नागदत्त के 3 पुत्र हैं और अभय के यहाँ भी अब पहला पुत्र ही जन्मा है। इसलिए दुर्गा और उग्रसेन अपने आप को बहुत भाग्यशाली मानते हैं, अपने इस खुशी पर वह मोहल्ले में दावत देकर सभी पड़ोसियों को भी अपनी खुशी में शामिल करते हैं। इसी बीच लेखक सिया के माध्यम से यह सूचना भी पाठक तक पहुँचा देते हैं कि भगवती की बहू रेवती के घर तीसरी कन्या का जन्म भी हो चुका है। सिया, गार्गी और फिर बुलबुल। दुर्गा के परिवार में जहाँ आए दिन पोतों के जन्मदिन के उत्सव मनाए जाते हैं, भगवती के परिवार में पोतियों को उनके जन्मदिन पर कभी कोई बधाई तक नहीं देता, यह बात बड़ी पोती बहुत गहराई से अनुभव करती है।

दुर्गा के परिवार में पोतों के जन्म की खुशियाँ बहुत धूमधाम से मनाई गईं, परन्तु यह खुशियाँ स्थायी रूप से टिक नहीं सकीं क्योंकि बड़े होते हुए इन लड़कों की छेड़खानी की शिकायतें आए दिन आने लगीं, जिससे उग्रसेन द्वारा मेहनत से कमाई इज्जत भी धीरे-धीरे कम होने लगी। अभय और नागदत्त में भी संयुक्त पारिवारिक

व्यवसाय में से अधिक से अधिक धन अपनी तरफ खींचने की इच्छा के कारण दोनों में मतभेद पैदा हो गए, जिस कारण अभय बहुत जल्द ही अपने परिवार को लेकर अलग हो गया। यह पहला झटका था जो दुर्गा और उग्रसेन को लगा। दूसरा झटका तब लगा जब सिया बारहवीं में अच्छे नम्बर लेकर पास हुई, जबकि दुर्गा के पोते असफल रहे। न चाहते हुए भी दुर्गा जब भगवती के घर बधाई देने गई और सिया के एलएलबी करने की इच्छा का पता चला तो वह व्यंग्य करने से नहीं चूकी और कह बैठी, "अच्छा तो तुम इसे अब जज बनाओगी?" अपने पोतों रोहन और अमित की असफलता का दुख इस व्यंग्य के रूप में दुर्गा के मुँह से निकला।

अपने पोते विभोर के दसवीं में फेल होने और गार्गी के सिया से भी अधिक नम्बर लाने से निराश दुर्गा यहाँ तक कह जाती है कि "ऐसे निकम्मे पोतों से तो ऊपर वाला दशरथ-भगवती जैसा एक पोती ही दे देता। सत्यनाशियों में से एक भी तो काम का नहीं निकला।

चार-चार पोतों वाला उग्रसेन का घर धीरे-धीरे जंगल की तरह वीरान हो गया, जबकि दशरथ और भगवती के घर में पोतियों की चहचहाहट से हमेशा रौनक लगी रही। न केवल अपने दादा-दादी से बल्कि पड़ोस के दादा-दादी दुर्गा और उग्रसेन से भी इन लड़कियों का गहरा नाता है यही कारण है कि आवाज से ही अन्दाजा लगा लेती है कि दरवाजे पर तीनों में से कौन है। पोते विभोर के पूछने पर कि उसे कॉल बेल की आवाज से ही कैसे पता चल जाता है कि कौन है, दुर्गा का कहना होता है कि "बेटियों के हाथों की ऐसी ही छुअन होती है," यह वाक्यांश दुर्गा और पड़ोस की इन पोतियों के बीच गहरे लगाव को दर्शाता है। गार्गी के बीमार होने पर भगवती से उसका यह कहना, "भगवती, उनसे जाकर पूछो जिनके लड़कियाँ नहीं हैं। अब हमारे यहीं देख लो, सारी की सारी कौरवों की फौज पैदा हो गई है। मैं तो ऊपर वाले से रात दिन की विनती करती रहती हूँ कि बस हमें एक पोती दे दे।" दुर्गा का इस तरह कहने का एक कारण है कि उसके पोतों में से कोई भी ना तो सभ्य है और न ही पढ़ाई-लिखाई में रुचि रखनेवाला, बल्कि उन सबका काम तो हर वक्त गुंडागर्दी करना ही है इसीलिए सिया के साथ पढ़नेवाले अपने दोनों पोतों को उन्हें जल्द ही पढ़ाई छुड़ाकर जमीन-जायदाद के धन्धे में ही लगाना पड़ा। गार्गी के साथ पढ़नेवाले पोतों में से एक तो फेल हो गया जबकि दूसरा बहुत मुश्किल से ही पास हो पाया। यह परिवार जो कुछ वर्ष पूर्व पुत्रों के जन्म पर फूला नहीं समा रहा था आज उन्हीं का अन्धकारमय भविष्य देखकर चिन्तित है, जबकि उनके पड़ोस की सिया वकालत कर रही है और गार्गी डॉक्टर बनने के लिए योग्यता प्राप्त करके हॉस्टल जा चुकी है।

दुर्गा का छोटा बेटा अभय पहले ही घर छोड़ चुका है, लगभग 2 वर्ष के अन्तराल में दूसरा भी माँ-बाप को छोड़कर दूसरी कॉलोनी में जा बसा। इन दोनों के जाने का आसपास के लोगों को कोई दुख नहीं हुआ बल्कि पड़ोसियों ने तो इस समाचार से

राहत की साँस ली। भगवती ने भी इस तरह प्रतिक्रिया दी, "चलो अच्छा हुआ कम-से-कम दु:शासनों से मोहल्ले को मुक्ति मिल जाएगी।" दशरथ के ऐसी प्रतिक्रिया पूछने पर वह स्पष्ट करती है कि सिया भी इन पोतों से परेशान रहती है, इस बात की शिकायत भी उसने कई बार दादी से की है।

अपने पुत्रों और पौत्रों की प्रकृति से अवगत उग्रसेन उनके घर छोड़ने से कुछ ही समय बाद वसीयत करके बँटवारे की बात सोचने लगता है। वह इस विचार की सूचना देने के लिए दोनों बेटों को सपरिवार अपने घर बुलाता है। ऊपर से आनाकानी करते हुए बेटे-बहुएँ सारी जायदाद के बँटवारे को ध्यान देकर सुनते हैं। अन्त में छोटी बहू प्रश्न उठाती है कि जिस घर में दुर्गा और उग्रसेन रहते हैं वह किसे दिया जाएगा? उग्रसेन के इतना कहते कि जो हमारी सेवा करेगा, वही इस मकान का अधिकारी है, दोनों ही पिता से वसीयत में स्पष्ट लिखवाना चाहते हैं कि उनके बाद दोनों को ही इस मकान का बराबर-बराबर हक मिले। उग्रसेन को अपने परिवार के ऐसे व्यवहार से बहुत दुख होता है और वह यह सोचने को विवश हो जाता है कि, "बेटों को अपने माँ-बाप पर भरोसा नहीं है। उनके मरने के बाद आख़िर सब कुछ उनकी सन्तान का ही तो है।" अपने बेटे-बहुओं के इसी व्यवहार के अनुभव के कारण ही शायद दुर्गा भगवती को छोटे बेटे के लिए बच्चा गोद लेने का सुझाव देती है और साथ ही बेटी गोद लेने का आग्रह भी करती है, क्योंकि वह इस बात को समझती है कि लड़के माँ-बाप की भी परवाह नहीं करते तो बहनों की कैसे करते? यही बात वो भगवती को भी समझाती है कि, "इस वंश बढ़ाने की भूख से हमारी बेटियों की दुर्गति हुई है।" इसी सुझाव के परिणामस्वरूप ही भगवती अपने छोटे बेटे रितेश को बेटी गोद लेने के लिए तैयार करती है। केवल यहीं बात नहीं समाप्त होती बल्कि सभी खुशी-खुशी गोद ली गई बच्ची का स्वागत भी धूमधाम से करते हैं। एक वर्ष बाद उसका जन्मदिन भी मनाया जाता है, उसी अवसर पर कुआँ भी पूजा जाता है, गोद लिये जाने के बाद भी इसकी अनुमति सब बुजुर्ग मिलकर दे देते हैं, यही उनकी दृष्टि में परिवर्तन का संकेत है। जिस घर में पहले कभी पोतियों का जन्मदिन तक नहीं मनाया जाता था, उसी परिवार में इतना बड़ा परिवर्तन उनकी बदली हुई मानसिकता का ही परिणाम है। वस्तुतः इस मानसिकता के बदलने के पीछे दुर्गा के वैयक्तिक जीवन के अनुभव हैं जो उसे अपने पुत्रों और बहुओं से प्राप्त हुए हैं।

कुआँ पूजने वाली घटना को स्थानीय समाचार-पत्र में छापा गया, जिसमें इस बच्ची के गोद लिए जाने की सूचना भी छाप दी गई, इससे सभी बुजुर्गों को बुरा लगता है। भगवती अपने प्रत्येक बड़े निर्णय में दुर्गा की सलाह शामिल करती है। अपने पुत्रों के जाने के बाद दुर्गा और उग्रसेन भी अपने पड़ोस में हो रहे बेटियों के इस कलरव से ही अपना दिल बहला लेते हैं। परन्तु अपनी सन्तान के अविश्वास और निरन्तर बढ़ती दूरियों से उग्रसेन भीतर-ही-भीतर अकेलेपन का रोग लगा लेते हैं। इसी रोग

के बढ़ने से अन्ततः जीवन का संघर्ष हारकर मृत्यु को गले लगा लेते हैं। उग्रसेन की मृत्यु के बाद पुत्र माँ को साथ चलने की जिद करते हैं परन्तु दुर्गा अपने कटु अनुभवों के कारण अकेले ही जीवनयापन करने का फैसला करती है। परन्तु अकेलेपन और पति के दुख से वो भी ज्यादा दिन जीवित नहीं रह पाई।

इससे पूर्व इधर भगवती की बड़ी दोनों पोतियाँ सिया जो वकालत कर रही है और गार्गी जो डॉक्टर बन चुकी है, अपनी इच्छा से अन्तरजातीय विवाह करती हैं, जिसका प्रारम्भ में तो भगवती बहुत विरोध करती है परन्तु दुर्गा और उग्रसेन के समझाने पर मान जाती है। दोनों पोतियों के अन्तरजातीय विवाह को मन से स्वीकार करनेवाली भगवती अपनी तीसरी पोती का विवाह अपनी इच्छा से, अपनी जाति के अनुसार करवाती है परन्तु दुर्भाग्यवश वही पोती बुलबुल अपने ससुराल में प्रताड़ना की शिकार होती है, जिस समस्या को आगे चलकर सिया ही अपने वकील होने का भय दिखाकर और अदालती कार्यवाही का डर दिखाकर निराकरण करती है। भगवती की चौथी पोती की कहानी भी बहुत रोचक है, विदेश में पढ़ाई करने के लिए सरकारी अनुदान प्राप्त कर पीहू पाँच साल के लिए ऑस्ट्रेलिया जाती है, इसी काल में पहले उसके दादा और फिर दादी का स्वर्गवास हो जाता है, जिससे पीहू बहुत आहत होती है और सब कुछ छोड़कर अपने माँ-बाप की सेवा करना चाहती है। परन्तु अपनी बहनों के समझाने पर ऑस्ट्रेलिया में प्राप्त नौकरी करने के लिए राजी होती है। आदर्श तो वह तब स्थापित करती है जब कुछ वर्षों पश्चात् लौटकर वह उसी अनाथाश्रम में जाकर अपने दादा-दादी के नाम से एक ट्रस्ट बनाती है, जिस आश्रम से उसे लाया गया था। अपने मूल को न भूलकर वह अपने जैसे कितने ही अनाथों का पालन करनेवाले आश्रम के लिए एक निश्चित धन दान में देती है।

वास्तव में इस कहानी में दो परिवारों के संस्कारों का अन्तर दिखाई देता है। दूध में पानी मिलाकर बेचनेवाला उग्रसेन ज़िन्दगी-भर धन एकत्र करता है। अपने पुत्रों और पौत्रों को 'पुत्र रत्न' बताकर गौरवान्वित अनुभव होता है, परन्तु उनके संस्कारों की ओर ध्यान नहीं दे पाता। परिणामतः दोनों पुत्र एक ही व्यवसाय को करते हुए एक दूसरे के साथ ईमानदारी नहीं निभा पाते और स्वार्थ बस एक दूसरे से मिलकर नहीं रह पाते। उनके पुत्र भी संस्कारहीन ही रहते हैं। जिन्हें चरित्रहीन होने के कारण मोहल्ले में भी कोई पसन्द नहीं करता। इसके विपरीत भगवती और दशरथ के पुत्र माता-पिता के आज्ञाकारी और चरित्रवान हैं। ये अपनी बेटियों का पालन-पोषण भी आदर्श रीति से करते हैं। इसीलिए सभी लड़कियाँ केवल अपने दादी-दादा को प्रिय हैं बल्कि पड़ोसियों में भी उनके लिए प्रेम का भाव है। दुर्गा की तो जैसे जान ही उनमें बसती है।

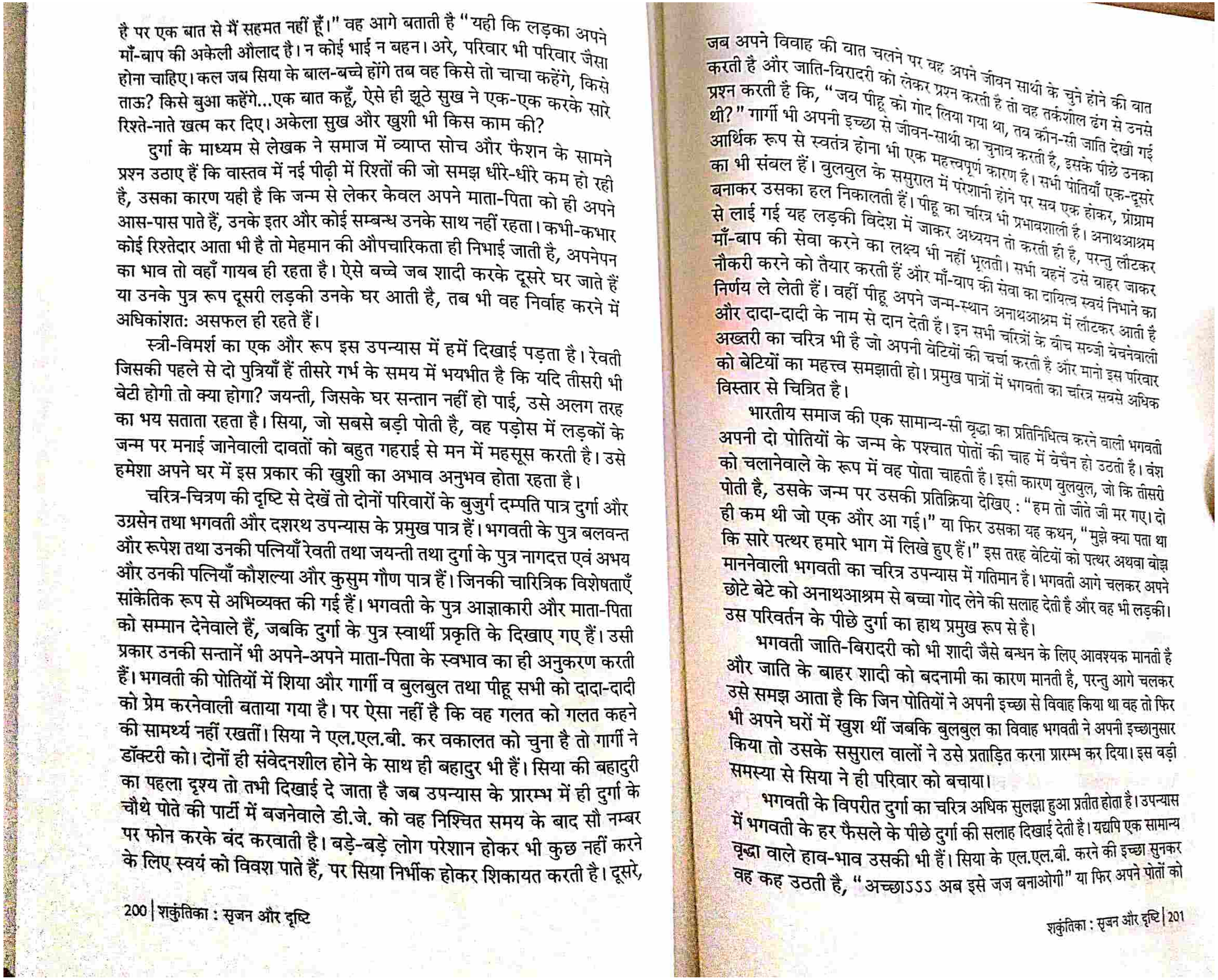
इस उपन्यास में हमें एक साथ कितने ही विमर्श उठते हुए दिखाई देते हैं। मूल रूप में तो भारतीय समाज में व्याप्त लिंग-भेद की समस्या को उठाया गया है। यहाँ

हर परिवार पुत्र-प्राप्ति की ही कामना मन में रखकर चलता है। घर के बड़े भी अपने छोटों को पुत्र-प्राप्ति का ही आशीर्वाद देते हैं। 'दूधो नहाओ और पूतो फलो' जैसे आशीष वचन इसी बात का उदाहरण है। पुत्र को ही रत्न माननेवाले लोग कन्या के जन्म की खुशी मनाना तो दूर उसे बोझ मानने की प्रकृति से युक्त होते हैं। जबकि यह सत्य है कि बेटियाँ बेटों से अधिक संवेदनशील और समझदार होती हैं, जो रिश्तों के महत्त्व को और उनकी गहराई को समझती हैं। दुर्गा और उग्रसेन के पोतों और भगवती तथा दशरथ की पोतियों के व्यवहार के अन्तर का वर्णन कर रचनाकार यही संकेत करना चाहता है। समय के बदलाव एवं आधुनिकता को समाज को हर स्तर पर अपनाना चाहिए। उपन्यास में बेटियों को स्थान-स्थान पर चिड़िया, गौरेया के साथ जोड़ा गया है। वर्तमान व्यावहारिक युग में जैसे हमने प्रकृति को नजरअन्दाज किया है, जिस कारण पर्यावरण में चिड़ियों की चहचहाहट सुनने के लिए हमारे कान तरस जाते हैं। उसी प्रकार केवल पुत्र की चाह रखनेवाला यह समाज नैतिक अथवा अनैतिक किसी भी तरह से गर्भ की जाँच करवाकर केवल पुत्र प्राप्ति की निश्चित सूचना होने पर ही शिशु को जन्म देने का आदी होता जा रहा है। जिसका परिणाम यह होता है कि किसी-किसी परिवार में कई-कई पीढ़ियों तक पुत्री नहीं होती। समाज में ऐसे परिवारों की एक अलग ही प्रतिष्ठा बन जाती है। परन्तु यह सुख स्वप्न जल्दी टूट जाता है क्योंकि वही परिवार जो पुत्र के जन्म-मात्र को ही गौरव मानते हैं, वह अपने पुत्रों का पालन-पोषण अनुशासित ढंग से नहीं कर पाते। इसलिए यह बच्चे संस्कारहीन, स्वार्थी प्रकृति वाले और दंभी होते हैं। जबकि पुत्रियों को जन्म से ही कठोर अनुशासन में रखा जाता है। जिस कारण वह मर्यादित जीवन का पालन करते हुए अपनी संवेदनशीलता से परिवार का संस्कार निभाती हैं।

लिंग-भेद के साथ-साथ जो दूसरी समस्या यहाँ मुख्य रूप से उठाई गई है, वह है वृद्धों की परिवार में स्थिति। भगवती और दशरथ के परिवार में तो पोतियों सहित उनके पुत्र और बहुएँ भी आज्ञाकारी हैं, जो हर कदम पर माँ-बाप की सेवा से ही कार्य करते हैं। हर बड़ा निर्णय घर के बुजुर्गों के द्वारा ही लिया जाता है और उस पर कोई प्रश्न नहीं उठाता। यद्यपि भगवती और दशरथ भी बहुत ही समझदारी से परिवार को लेकर बड़े निर्णय करते हैं और सभी सदस्यों के लिए एक ही नजर से सोचते हैं। प्रारम्भ में उन्हें अपने घर में पोतों का अभाव खलता जरूर है परन्तु दुर्गा के परिवार की स्थिति को देखकर वह स्वयं ही सबक ले लेते हैं। पूरा परिवार एक सूत्र में बँधा दिखाई देता है, जिसके प्रमुख दो छोर दादा और दादी हैं। परन्तु इसके विपरीत दुर्गा के पुत्र बहुत जल्द ही अपने-अपने परिवारों को लेकर अलग रहने लगते हैं और माता-पिता को वृद्धावस्था में एकाकी जीवन जीने के लिए छोड़ देते हैं। औपचारिकतावश कभी-कभी आते भी हैं तो केवल जायदाद के लालच में। इसीलिए तो उग्रसेन द्वारा वसीयत की चर्चा करने पर बहुएँ उस घर को लेकर विवाद खड़ा कर देती हैं जिसमें माता-पिता अपना बुढ़ापा अकेले काट रहे हैं। उस घर पर भी उन्हें वसीयत में स्पष्ट अधिकार की चाह है। पिता की मृत्यु के समय भी कोई पुत्र समय पर घर नहीं पहुँचता। दशरथ के पुत्र उसे अस्पताल ले जाते हैं, जहाँ रास्ते में ही उसका देहान्त हो जाता है। उग्रसेन को वास्तव में किसी बीमारी ने नहीं मारा, उसे तो पुत्रों के वियोग ने और अकेलेपन ने मारा है। यह स्थिति केवल दुर्गा और उग्रसेन की नहीं है, वर्तमान परिवेश में कमोबेश सभी परिवारों की है कि युवा वर्ग अपने बुजुर्गों के लिए न तो समय ही निकाल पा रही है और न ही उनके प्रति सेवा भाव ही रख पा रही है। परिणामस्वरूप एकल परिवारों की पौध निरन्तर पल्लवित हो रही है।

अन्तरजातीय विवाह को भी भारतीय समाज में सामान्य रूप से पसन्द नहीं किया जाता, इस विषय पर भी उपन्यास में चर्चा की गई है। सिया और गार्गी अपने साथ काम करनेवाले साथियों में से ही अपने जीवन-साथी का चुनाव करना चाहती हैं परन्तु भगवती इस तरह के विवाह के पक्ष में नहीं है और इसमें अपने परिवार के नाक कटने की बात करती है और कह उठती हैं, "हे राऽऽम! इस लड़की ने हमें कहीं का नहीं छोड़ा।" उग्रसेन जब इसे एक सामान्य बात की तरह लेता है तो भगवती कहती है, "आप भी कैसी बात कर रहे हैं भाई साहब। न किसी की जात का पता, न बिरादरी का, न परिवार का पता, न खानदान का। ऐसे कैसे होगा?" उसकी इच्छा तो अपनी पोतियों के लिए ऐसे परिवारों की तलाश की है जो उनकी जाति-बिरादरी का तो हो ही, साथ ही इकलौता पुत्र भी हो। जहाँ न तो कोई बड़े परिवार का झंझट हो न भाई-बहनों का विवाद।

वास्तव में वर्तमान परिस्थितियों में अधिकांश बेटियों के माता-पिता अथवा परिवार वाले अपनी पुत्री के लिए इसी प्रकार के एकल परिवारों की ही तलाश करते हैं। यह भी एक नए तरह का विमर्श आज तक के वातावरण में चर्चा में है। दुविधा तब होती है जब पुत्री के लिए तो हम छोटे परिवार की चाह रखते हैं जिनका अकेला लड़का हो परन्तु जब हम बहू खोजते हैं तब ऐसी लड़की चाहते हैं जो बड़े परिवार में घुल-मिलकर रहे और सभी को आदर और सम्मान दे सके। यह दोनों ही परस्पर विरोधी विचार हैं। एक ही समय पर दो तरह की विचारधाराएँ रखना इस समाज का स्वार्थपूर्ण रवैया दर्शाता है। भगवती भी ऐसे ही आदर्श परिवार की चाह अपनी पोतियों के लिए रखती है, इसीलिए सिया के लिए रिश्ता मिल जाने पर वह दुर्गा के सामने उस रिश्ते की तारीफ इन शब्दों में करती है, "सबसे बड़ी बात इस परिवार की यह है कि एकदम छोटा-सा परिवार है। आजकल के हिसाब से एकदम आदर्श परिवार... दुर्गा ऐसा घर-बार नसीब वालों को मिलता है। दुर्गा भगवती को इस तरह की सोच से बाहर लाने का प्रयास करती है और संकेत रूप से अपनी असहमति भी प्रकट करती है, "भगवती तेरी सारी बात सही है। अच्छा घर-वार है। लड़का पढ़ा-लिखा



है पर एक बात से मैं सहमत नहीं हूँ।" वह आगे बताती है "यही कि लड़का अपने माँ-बाप की अकेली औलाद है। न कोई भाई न बहन। अरे, परिवार भी परिवार जैसा होना चाहिए। कल जब सिया के बाल-बच्चे होंगे तब वह किसे तो चाचा कहेंगे, किसे ताऊ? किसे बुआ कहेंगे...एक बात कहूँ, ऐसे ही झूठे सुख ने एक-एक करके सारे रिश्ते-नाते खत्म कर दिए। अकेला सुख और खुशी भी किस काम की?

दुर्गा के माध्यम से लेखक ने समाज में व्याप्त सोच और फैशन के सामने प्रश्न उठाए हैं कि वास्तव में नई पीढ़ी में रिश्तों की जो समझ धीरे-धीरे कम हो रही है, उसका कारण यही है कि जन्म से लेकर केवल अपने माता-पिता को ही अपने आस-पास पाते हैं, उनके इतर और कोई सम्बन्ध उनके साथ नहीं रहता। कभी-कभार कोई रिश्तेदार आता भी है तो मेहमान की औपचारिकता ही निभाई जाती है, अपनेपन का भाव तो वहाँ गायब ही रहता है। ऐसे बच्चे जब शादी करके दूसरे घर जाते हैं या उनके पुत्र रूप दूसरी लड़की उनके घर आती है, तब भी वह निर्वाह करने में अधिकांशत: असफल ही रहते हैं।

स्त्री-विमर्श का एक और रूप इस उपन्यास में हमें दिखाई पड़ता है। रेवती जिसकी पहले से दो पुत्रियाँ हैं तीसरे गर्भ के समय में भयभीत है कि यदि तीसरी भी बेटी होगी तो क्या होगा? जयन्ती, जिसके घर सन्तान नहीं हो पाई, उसे अलग तरह का भय सताता रहता है। सिया, जो सबसे बड़ी पोती है, वह पड़ोस में लड़कों के जन्म पर मनाई जानेवाली दावतों को बहुत गहराई से मन में महसूस करती है। उसे हमेशा अपने घर में इस प्रकार की खुशी का अभाव अनुभव होता रहता है।

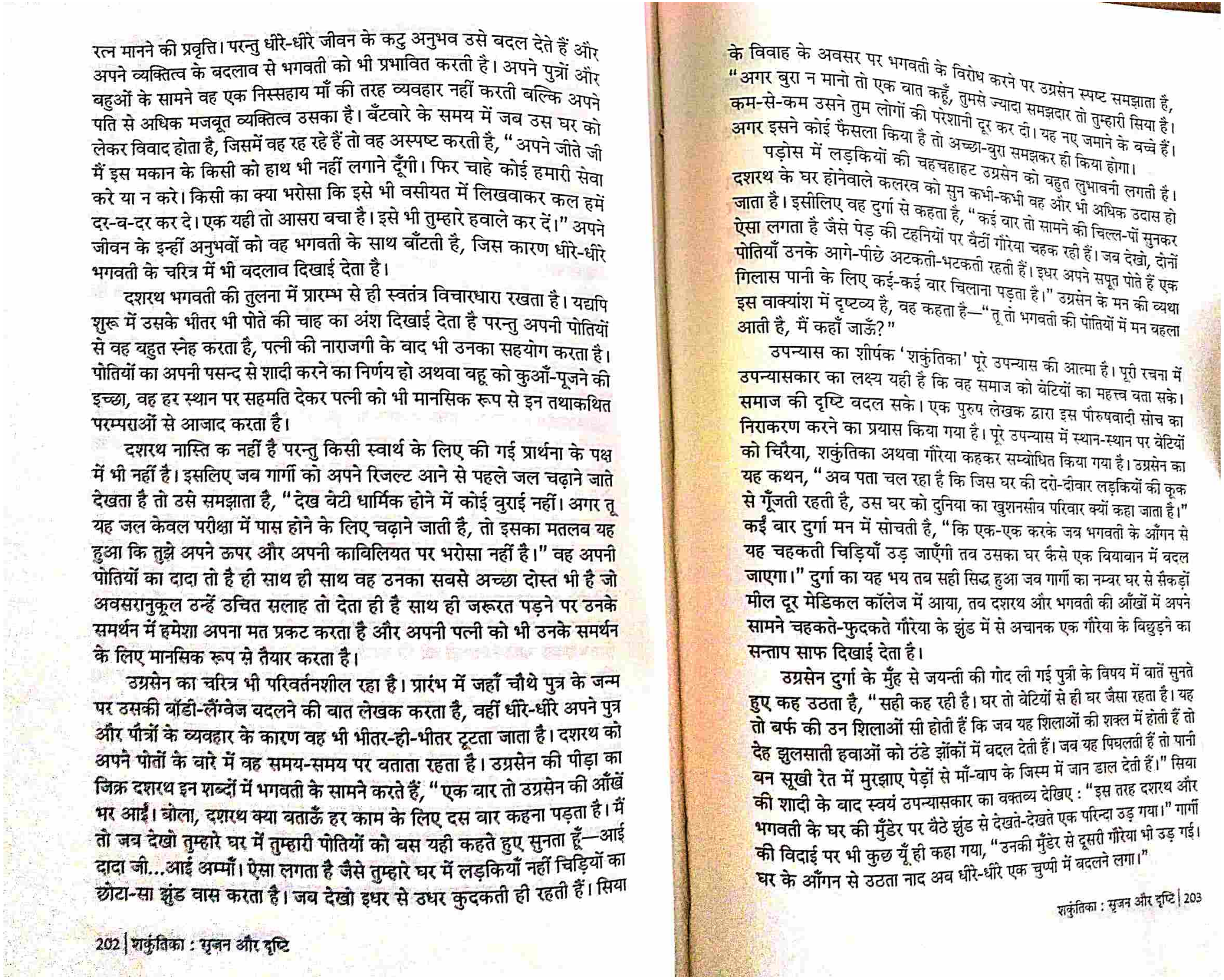
चरित्र-चित्रण की दृष्टि से देखें तो दोनों परिवारों के बुजुर्ग दम्पति पात्र दुर्गा और उग्रसेन तथा भगवती और दशरथ उपन्यास के प्रमुख पात्र हैं। भगवती के पुत्र बलवन्त और रूपेश तथा उनकी पत्नियाँ रेवती तथा जयन्ती तथा दुर्गा के पुत्र नागदत्त एवं अभय और उनकी पत्नियाँ कौशल्या और कुसुम गौण पात्र हैं। जिनकी चारित्रिक विशेषताएँ सांकेतिक रूप से अभिव्यक्त की गई हैं। भगवती के पुत्र आज्ञाकारी और माता-पिता को सम्मान देनेवाले हैं, जबकि दुर्गा के पुत्र स्वार्थी प्रकृति के दिखाए गए हैं। उसी प्रकार उनकी सन्तानें भी अपने-अपने माता-पिता के स्वभाव का ही अनुकरण करती हैं। भगवती की पोतियों में शिया और गार्गी व बुलबुल तथा पीहू सभी को दादा-दादी को प्रेम करनेवाली बताया गया है। पर ऐसा नहीं है कि वह गलत को गलत कहने की सामर्थ्य नहीं रखतीं। सिया ने एल.एल.बी. कर वकालत को चुना है तो गार्गी ने डॉक्टरी को। दोनों ही संवेदनशील होने के साथ ही बहादुर भी हैं। सिया की बहादुरी का पहला दृश्य तो तभी दिखाई दे जाता है जब उपन्यास के प्रारम्भ में ही दुर्गा के चौथे पोते की पार्टी में बजनेवाले डी.जे. को वह निश्चित समय के बाद सौ नम्बर पर फोन करके बंद करवाती है। बड़े-बड़े लोग परेशान होकर भी कुछ नहीं करने के लिए स्वयं को विवश पाते हैं, पर सिया निर्भीक होकर शिकायत करती है। दूसरे,

जब अपने विवाह की बात चलने पर वह अपने जीवन साथी के चुने होने की बात करती है और जाति-बिरादरी को लेकर प्रश्न करती है तो वह तर्कशील ढंग से उनसे प्रश्न करती है कि, "जब पीहू को गोद लिया गया था, तब कौन-सी जाति देखी गई थी?" गार्गी भी अपनी इच्छा से जीवन-साथी का चुनाव करती है, इसके पीछे उनका आर्थिक रूप से स्वतंत्र होना भी एक महत्त्वपूर्ण कारण है। सभी पोतियाँ एक-दूसरे का भी संबल हैं। बुलबुल के ससुराल में परेशानी होने पर सब एक होकर, प्रोग्राम बनाकर उसका हल निकालती हैं। पीहू का चरित्र भी प्रभावशाली है। अनाथआश्रम से लाई गई यह लड़की विदेश में जाकर अध्ययन तो करती ही है, परन्तु लौटकर माँ-बाप की सेवा करने का लक्ष्य भी नहीं भूलती। सभी बहनें उसे बाहर जाकर नौकरी करने को तैयार करती हैं और माँ-बाप की सेवा का दायित्व स्वयं निभाने का निर्णय ले लेती हैं। वहीं पीहू अपने जन्म-स्थान अनाथआश्रम में लौटकर आती है और दादा-दादी के नाम से दान देती है। इन सभी चरित्रों के बीच सब्जी बेचनेवाली अख्तरी का चरित्र भी है जो अपनी बेटियों की चर्चा करती है और मानो इस परिवार को बेटियों का महत्त्व समझाती हो। प्रमुख पात्रों में भगवती का चरित्र सबसे अधिक विस्तार से चित्रित है।

भारतीय समाज की एक सामान्य-सी वृद्धा का प्रतिनिधित्व करने वाली भगवती अपनी दो पोतियों के जन्म के पश्चात पोतों की चाह में बेचैन हो उठती है। वंश को चलानेवाले के रूप में वह पोता चाहती है। इसी कारण बुलबुल, जो कि तीसरी पोती है, उसके जन्म पर उसकी प्रतिक्रिया देखिए : "हम तो जीते जी मर गए। दो ही कम थी जो एक और आ गई।" या फिर उसका यह कथन, "मुझे क्या पता था कि सारे पत्थर हमारे भाग में लिखे हुए हैं।" इस तरह बेटियों को पत्थर अथवा बोझ माननेवाली भगवती का चरित्र उपन्यास में गतिमान है। भगवती आगे चलकर अपने छोटे बेटे को अनाथआश्रम से बच्चा गोद लेने की सलाह देती है और वह भी लड़की। उस परिवर्तन के पीछे दुर्गा का हाथ प्रमुख रूप से है।

भगवती जाति-बिरादरी को भी शादी जैसे बन्धन के लिए आवश्यक मानती है और जाति के बाहर शादी को बदनामी का कारण मानती है, परन्तु आगे चलकर उसे समझ आता है कि जिन पोतियों ने अपनी इच्छा से विवाह किया था वह तो फिर भी अपने घरों में खुश थीं जबकि बुलबुल का विवाह भगवती ने अपनी इच्छानुसार किया तो उसके ससुराल वालों ने उसे प्रताड़ित करना प्रारम्भ कर दिया। इस बड़ी समस्या से सिया ने ही परिवार को बचाया।

भगवती के विपरीत दुर्गा का चरित्र अधिक सुलझा हुआ प्रतीत होता है। उपन्यास में भगवती के हर फैसले के पीछे दुर्गा की सलाह दिखाई देती है। यद्यपि एक सामान्य वृद्धा वाले हाव-भाव उसकी भी हैं। सिया के एल.एल.बी. करने की इच्छा सुनकर वह कह उठती है, "अच्छाऽऽऽ अब इसे जज बनाओगी" या फिर अपने पोतों को



रत्न मानने की प्रवृत्ति। परन्तु धीरे-धीरे जीवन के कटु अनुभव उसे बदल देते हैं और अपने व्यक्तित्व के बदलाव से भगवती को भी प्रभावित करती है। अपने पुत्रों और बहुओं के सामने वह एक निस्सहाय माँ की तरह व्यवहार नहीं करती बल्कि अपने पति से अधिक मजबूत व्यक्तित्व उसका है। बँटवारे के समय में जब उस घर को लेकर विवाद होता है, जिसमें वह रह रहे हैं तो वह अस्पष्ट करती है, "अपने जीते जी मैं इस मकान के किसी को हाथ भी नहीं लगाने दूँगी। फिर चाहे कोई हमारी सेवा करे या न करे। किसी का क्या भरोसा कि इसे भी वसीयत में लिखवाकर कल हमें दर-ब-दर कर दे। एक यही तो आसरा बचा है। इसे भी तुम्हारे हवाले कर दें।" अपने जीवन के इन्हीं अनुभवों को वह भगवती के साथ बाँटती है, जिस कारण धीरे-धीरे भगवती के चरित्र में भी बदलाव दिखाई देता है।

दशरथ भगवती की तुलना में प्रारम्भ से ही स्वतंत्र विचारधारा रखता है। यद्यपि शुरू में उसके भीतर भी पोते की चाह का अंश दिखाई देता है परन्तु अपनी पोतियों से वह बहुत स्नेह करता है, पत्नी की नाराजगी के बाद भी उनका सहयोग करता है। पोतियों का अपनी पसन्द से शादी करने का निर्णय हो अथवा बहू को कुआँ-पूजने की इच्छा, वह हर स्थान पर सहमति देकर पत्नी को भी मानसिक रूप से इन तथाकथित परम्पराओं से आजाद करता है।

दशरथ नास्ति क नहीं है परन्तु किसी स्वार्थ के लिए की गई प्रार्थना के पक्ष में भी नहीं है। इसलिए जब गार्गी को अपने रिजल्ट आने से पहले जल चढ़ाने जाते देखता है तो उसे समझाता है, "देख बेटी धार्मिक होने में कोई बुराई नहीं। अगर तू यह जल केवल परीक्षा में पास होने के लिए चढ़ाने जाती है, तो इसका मतलब यह हुआ कि तुझे अपने ऊपर और अपनी काबिलियत पर भरोसा नहीं है।" वह अपनी पोतियों का दादा तो है ही साथ ही साथ वह उनका सबसे अच्छा दोस्त भी है जो अवसरानुकूल उन्हें उचित सलाह तो देता ही है साथ ही जरूरत पड़ने पर उनके समर्थन में हमेशा अपना मत प्रकट करता है और अपनी पत्नी को भी उनके समर्थन के लिए मानसिक रूप से तैयार करता है।

उग्रसेन का चरित्र भी परिवर्तनशील रहा है। प्रारंभ में जहाँ चौथे पुत्र के जन्म पर उसकी बॉडी-लैंग्वेज बदलने की बात लेखक करता है, वहीं धीरे-धीरे अपने पुत्र और पौत्रों के व्यवहार के कारण वह भी भीतर-ही-भीतर टूटता जाता है। दशरथ को अपने पोतों के बारे में वह समय-समय पर बताता रहता है। उग्रसेन की पीड़ा का जिक्र दशरथ इन शब्दों में भगवती के सामने करते हैं, "एक बार तो उग्रसेन की आँखें भर आईं। बोला, दशरथ क्या बताऊँ हर काम के लिए दस बार कहना पड़ता है। मैं तो जब देखो तुम्हारे घर में तुम्हारी पोतियों को बस यही कहते हुए सुनता हूँ—आई दादा जी...आई अम्माँ। ऐसा लगता है जैसे तुम्हारे घर में लड़कियाँ नहीं चिड़ियों का छोटा-सा झुंड वास करता है। जब देखो इधर से उधर कुदकती ही रहती हैं। सिया

के विवाह के अवसर पर भगवती के विरोध करने पर उग्रसेन स्पष्ट समझाता है, "अगर बुरा न मानो तो एक बात कहूँ, तुमसे ज्यादा समझदार तो तुम्हारी सिया है। कम-से-कम उसने तुम लोगों की परेशानी दूर कर दी। यह नए जमाने के बच्चे हैं। अगर इसने कोई फैसला किया है तो अच्छा-बुरा समझकर ही किया होगा।

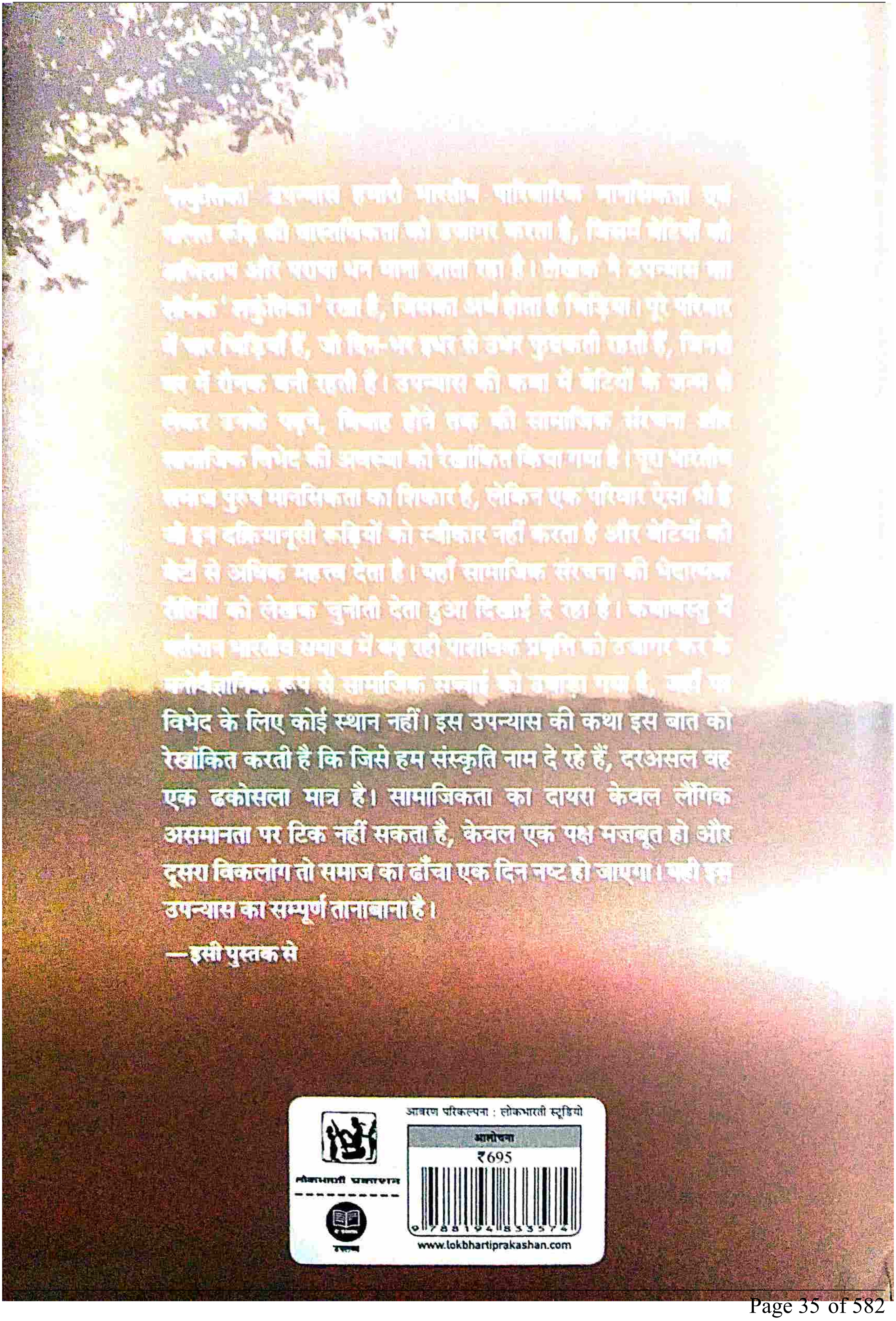
पड़ोस में लड़कियों की चहचहाहट उग्रसेन को बहुत लुभावनी लगती है। दशरथ के घर होनेवाले कलरव को सुन कभी-कभी वह और भी अधिक उदास हो जाता है। इसीलिए वह दुर्गा से कहता है, "कई बार तो सामने की चिल्ल-पों सुनकर ऐसा लगता है जैसे पेड़ की टहनियों पर बैठीं गौरैया चहक रही हैं। जब देखो, दोनों पोतियाँ उनके आगे-पीछे अटकती-भटकती रहती हैं। इधर अपने सपूत पोते हैं एक गिलास पानी के लिए कई-कई बार चिलाना पड़ता है।" उग्रसेन के मन की व्यथा इस वाक्यांश में दृष्टव्य है, वह कहता है—"तू तो भगवती की पोतियों में मन बहला आती है, मैं कहाँ जाऊँ?"

उपन्यास का शीर्षक 'शकुंतिका' पूरे उपन्यास की आत्मा है। पूरी रचना में उपन्यासकार का लक्ष्य यही है कि वह समाज को बेटियों का महत्त्व बता सके। समाज की दृष्टि बदल सके। एक पुरुष लेखक द्वारा इस पौरुषवादी सोच का निराकरण करने का प्रयास किया गया है। पूरे उपन्यास में स्थान-स्थान पर बेटियों को चिरैया, शकुंतिका अथवा गौरेया कहकर सम्बोधित किया गया है। उग्रसेन का यह कथन, "अब पता चल रहा है कि जिस घर की दरो-दीवार लड़कियों की कूक से गूँजती रहती है, उस घर को दुनिया का खुशनसीब परिवार क्यों कहा जाता है।" कई बार दुर्गा मन में सोचती है, "कि एक-एक करके जब भगवती के आँगन से यह चहकती चिड़ियाँ उड़ जाएँगी तब उसका घर कैसे एक बियाबान में बदल जाएगा।" दुर्गा का यह भय तब सही सिद्ध हुआ जब गार्गी का नम्बर घर से सैकड़ों मील दूर मेडिकल कॉलेज में आया, तब दशरथ और भगवती की आँखों में अपने सामने चहकते-फुदकते गौरेया के झुंड में से अचानक एक गौरेया के बिछुड़ने का सन्ताप साफ दिखाई देता है।

उग्रसेन दुर्गा के मुँह से जयन्ती की गोद ली गई पुत्री के विषय में बातें सुनते हुए कह उठता है, "सही कह रही है। घर तो बेटियों से ही घर जैसा रहता है। यह तो बर्फ की उन शिलाओं सी होती हैं कि जब यह शिलाओं की शक्ल में होती हैं तो देह झुलसाती हवाओं को ठंडे झोंकों में बदल देती हैं। जब यह पिघलती हैं तो पानी बन सूखी रेत में मुरझाए पेड़ों से माँ-बाप के जिस्म में जान डाल देती हैं।" सिया की शादी के बाद स्वयं उपन्यासकार का वक्तव्य देखिए : "इस तरह दशरथ और भगवती के घर की मुँडेर पर बैठे झुंड से देखते-देखते एक परिन्दा उड़ गया।" गार्गी की विदाई पर भी कुछ यूँ ही कहा गया, "उनकी मुँडेर से दूसरी गौरेया भी उड़ गई। घर के आँगन से उठता नाद अब धीरे-धीरे एक चुप्पी में बदलने लगा।"

इस प्रकार इन उद्धरणों से यह स्पष्ट है कि उपन्यासकार इन बेटियों को ही चिरैया, गौरेया, शकुंतिका के रूप में देख रहा है, जिनकी चहचहाहट ही परिवार को परिवार बनाती है। पर फिर भी उनके जन्म को अभी तक थाली बजाकर घोषित करने का साहस माँ-बाप नहीं कर पाते। पूरा उपन्यास उस बजती हुई थाली के नाद के भीतर छिपी ध्वनियों को प्रकट करता है।

निष्कर्षत: शकुंतिका आकार में लघु होते हुए भी वर्तमान सामाजिक यथार्थ का प्रतिबिम्ब विस्तारपूर्वक पाठक के समक्ष रखता है। आधुनिकता के आवरण के भीतर भी समाज जिस मध्यकालीन बोध से ग्रस्त है, उस आवरण को उधेड़ कर रखने का कार्य इस उपन्यास की कथा कहती है। अत: इसे एक सफल सामाजिक और विविध विमर्शों वाला उपन्यास कहा जा सकता है।



'शकुंतिका' उपन्यास हमारी भारतीय पारिवारिक मानसिकता एवं प्रचलित रूढ़ि की वास्तविकता को उजागर करता है, जिसमें बेटियों को अभिशाप और पराया धन माना जाता रहा है। लेखक ने उपन्यास का शीर्षक 'शकुंतिका' रखा है, जिसका अर्थ होता है चिड़िया। पूरे परिवार में चार चिड़ियाँ हैं, जो दिन-भर इधर से उधर फुदकती रहती हैं, जिनसे घर में रौनक बनी रहती है। उपन्यास की कथा में बेटियों के जन्म से लेकर उनके पढ़ने, विवाह होने तक की सामाजिक संरचना और सामाजिक विभेद की अवस्था को रेखांकित किया गया है। पूरा भारतीय समाज पुरुष मानसिकता का शिकार है, लेकिन एक परिवार ऐसा भी है जो इन दकियानूसी रूढ़ियों को स्वीकार नहीं करता है और बेटियों को बेटों से अधिक महत्व देता है। यहाँ सामाजिक संरचना की भेदात्मक नीतियों को लेखक चुनौती देता हुआ दिखाई दे रहा है। कथावस्तु में वर्तमान भारतीय समाज में बढ़ रही पाशविक प्रवृत्ति को उजागर कर के मनोवैज्ञानिक रूप से सामाजिक सच्चाई को उभारा गया है, जहाँ पर विभेद के लिए कोई स्थान नहीं। इस उपन्यास की कथा इस बात को रेखांकित करती है कि जिसे हम संस्कृति नाम दे रहे हैं, दरअसल वह एक ढकोसला मात्र है। सामाजिकता का दायरा केवल लैंगिक असमानता पर टिक नहीं सकता है, केवल एक पक्ष मजबूत हो और दूसरा विकलांग तो समाज का ढाँचा एक दिन नष्ट हो जाएगा। यही इस उपन्यास का सम्पूर्ण तानाबाना है।

—इसी पुस्तक से

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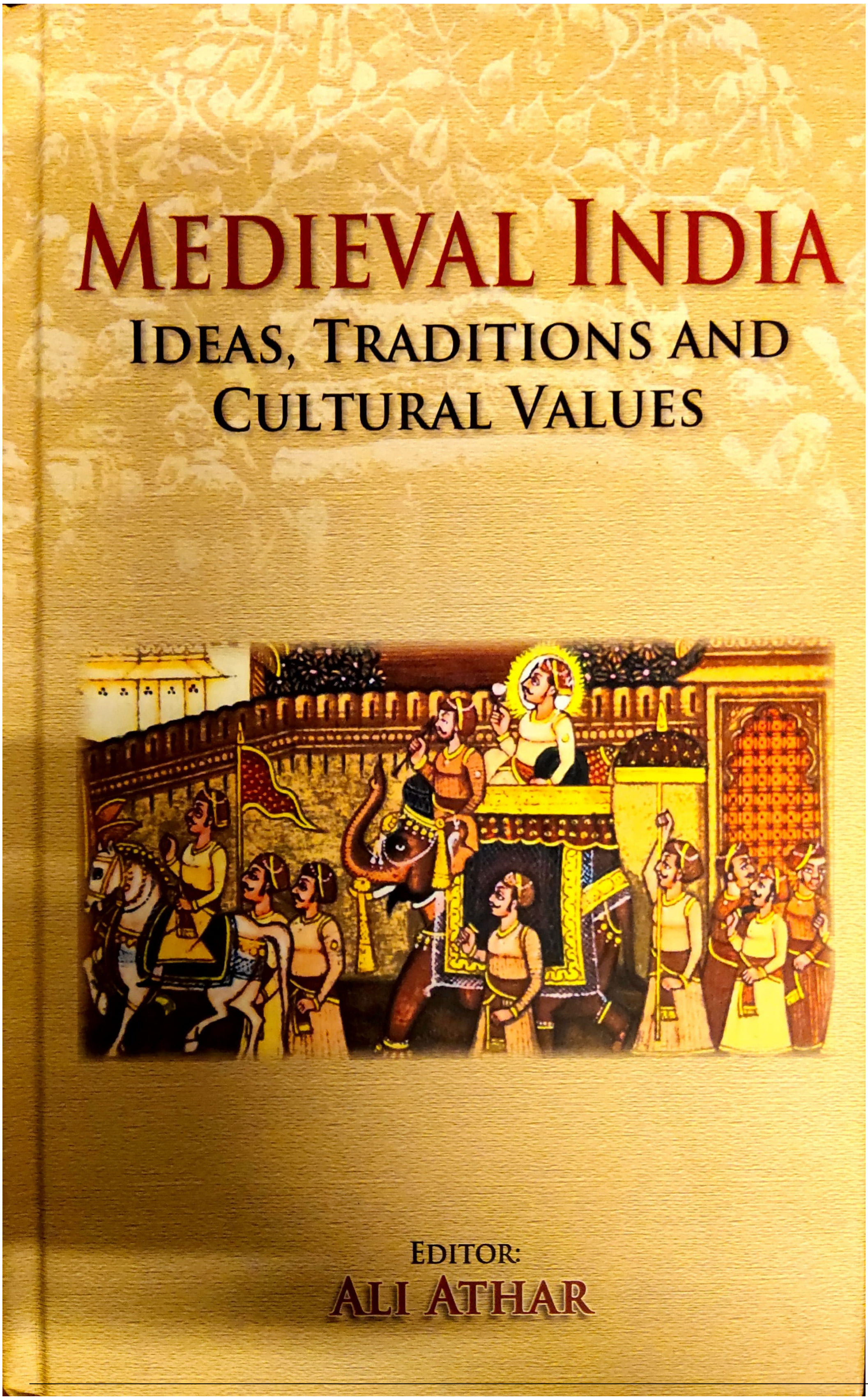

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EDITOR:

ALI ATHAR

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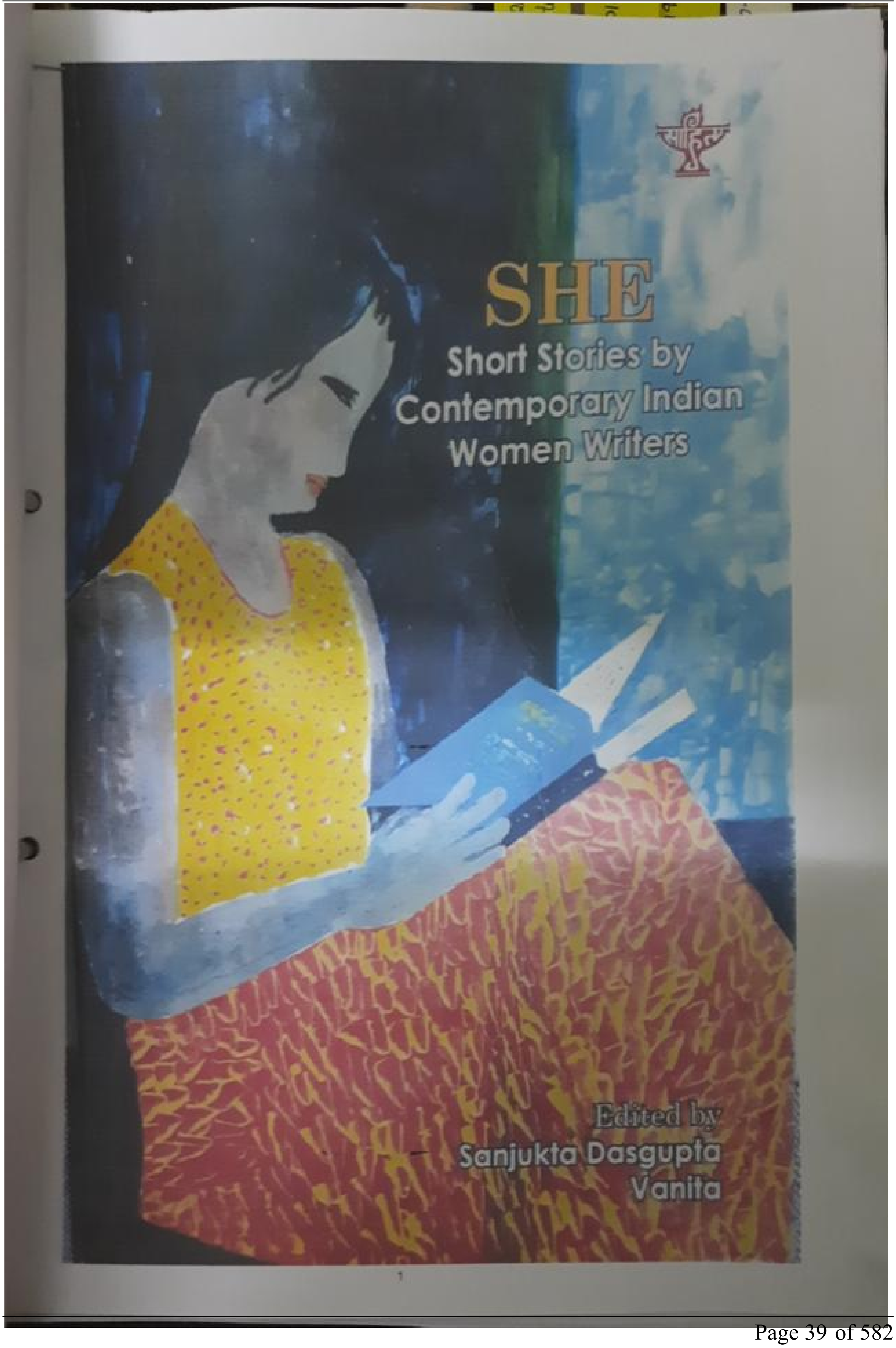

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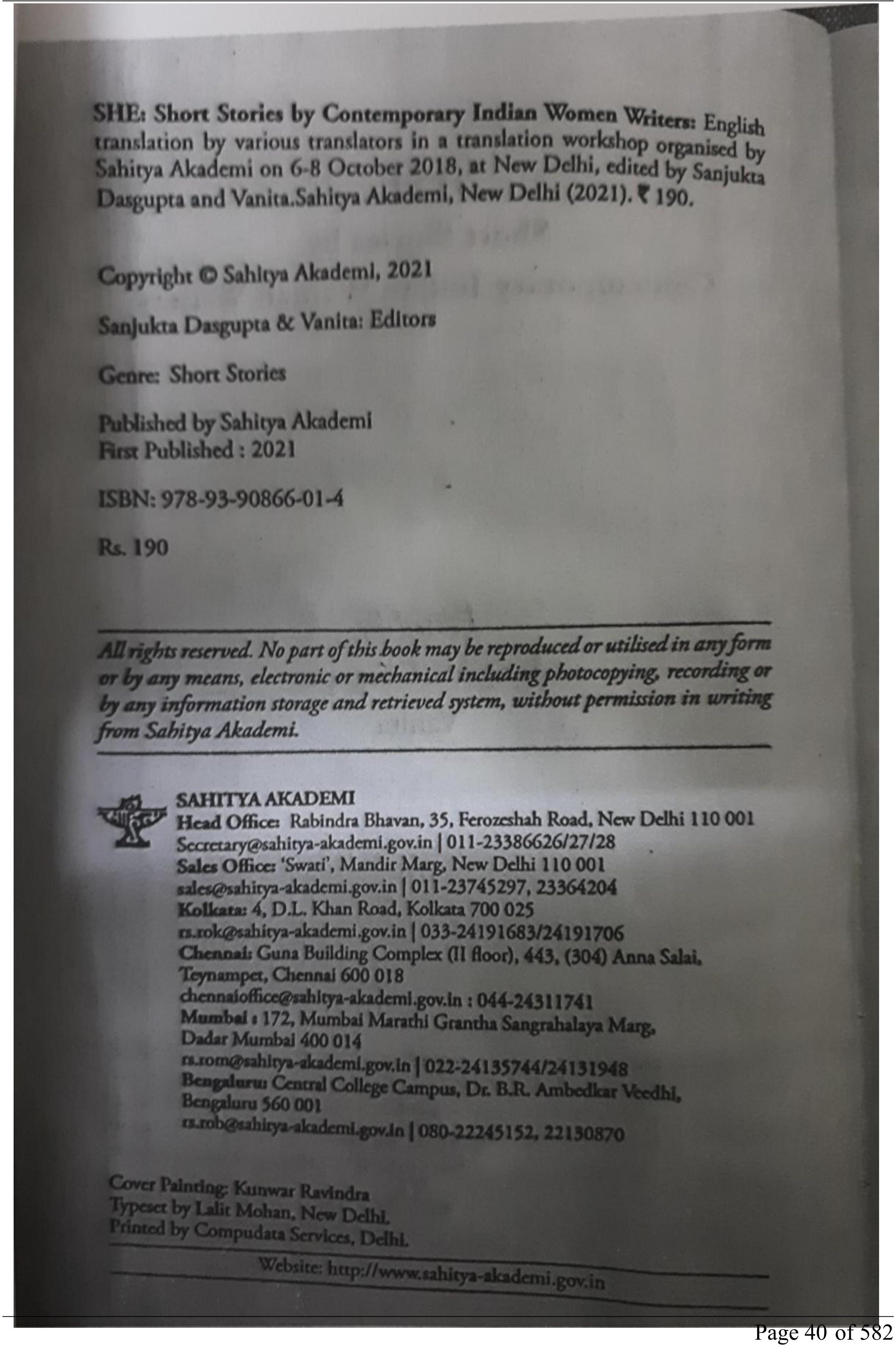
Edited by
Sanjukta Dasgupta
Vanita



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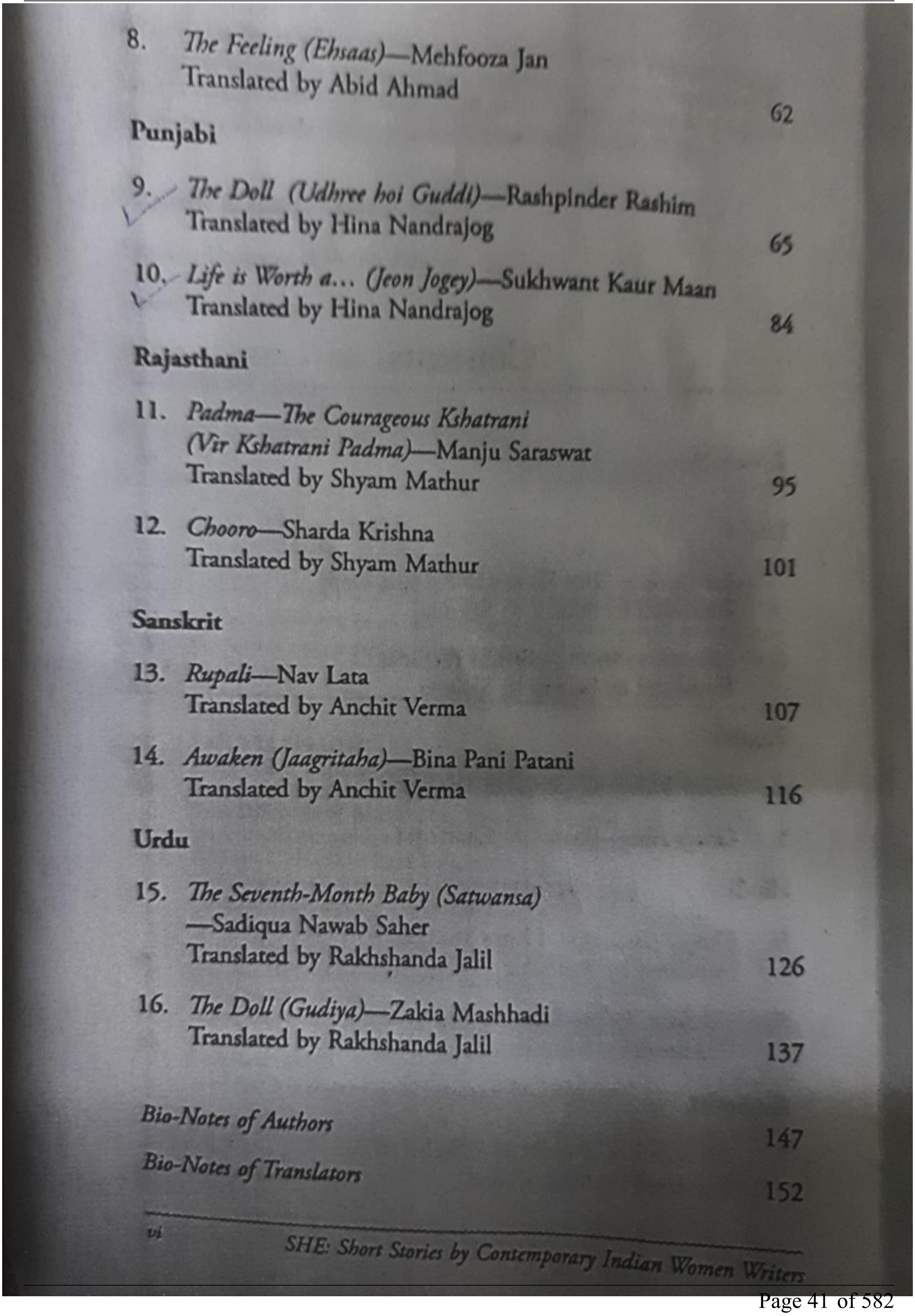
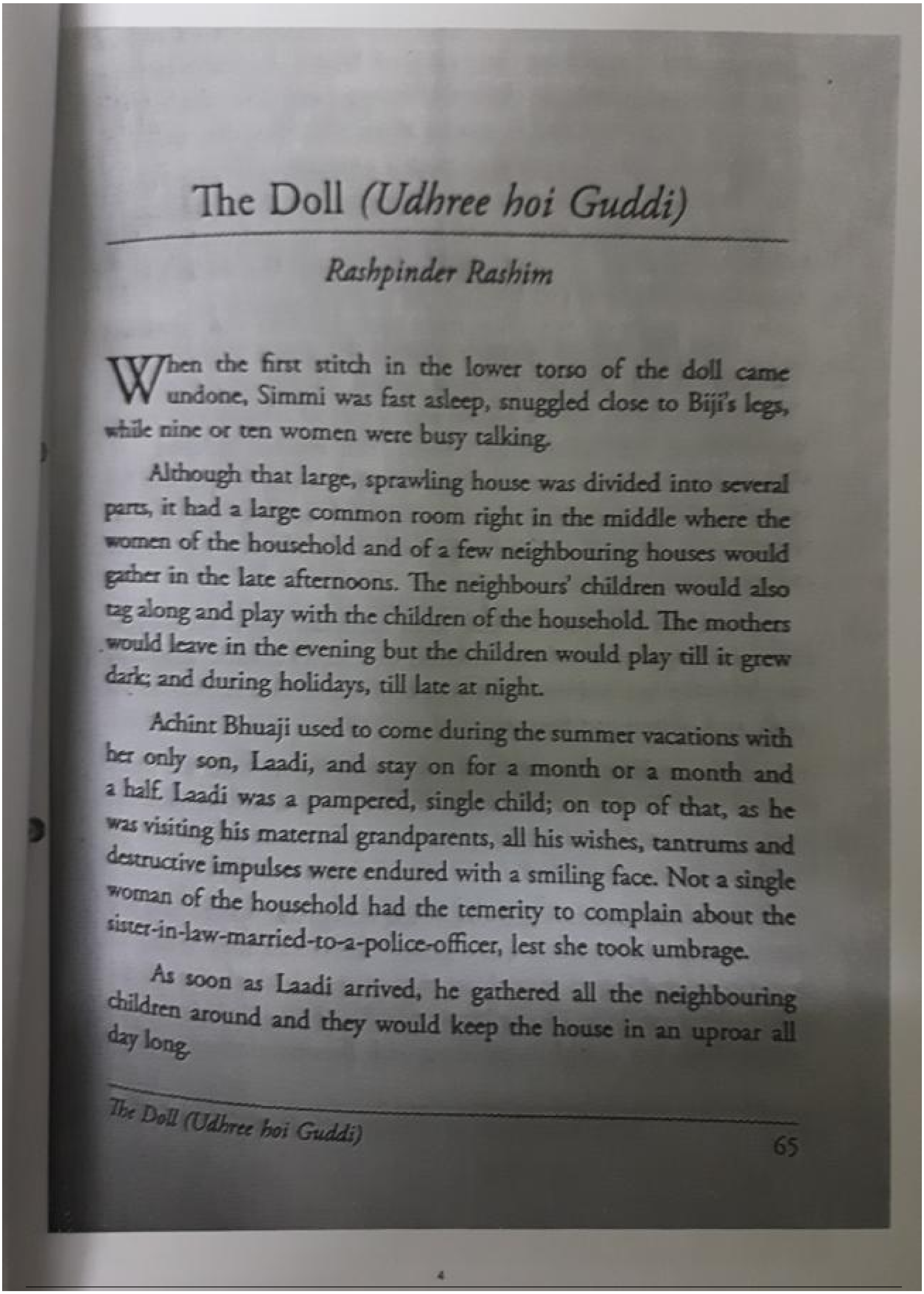




The Doll *(Udhree hoi Guddi)*

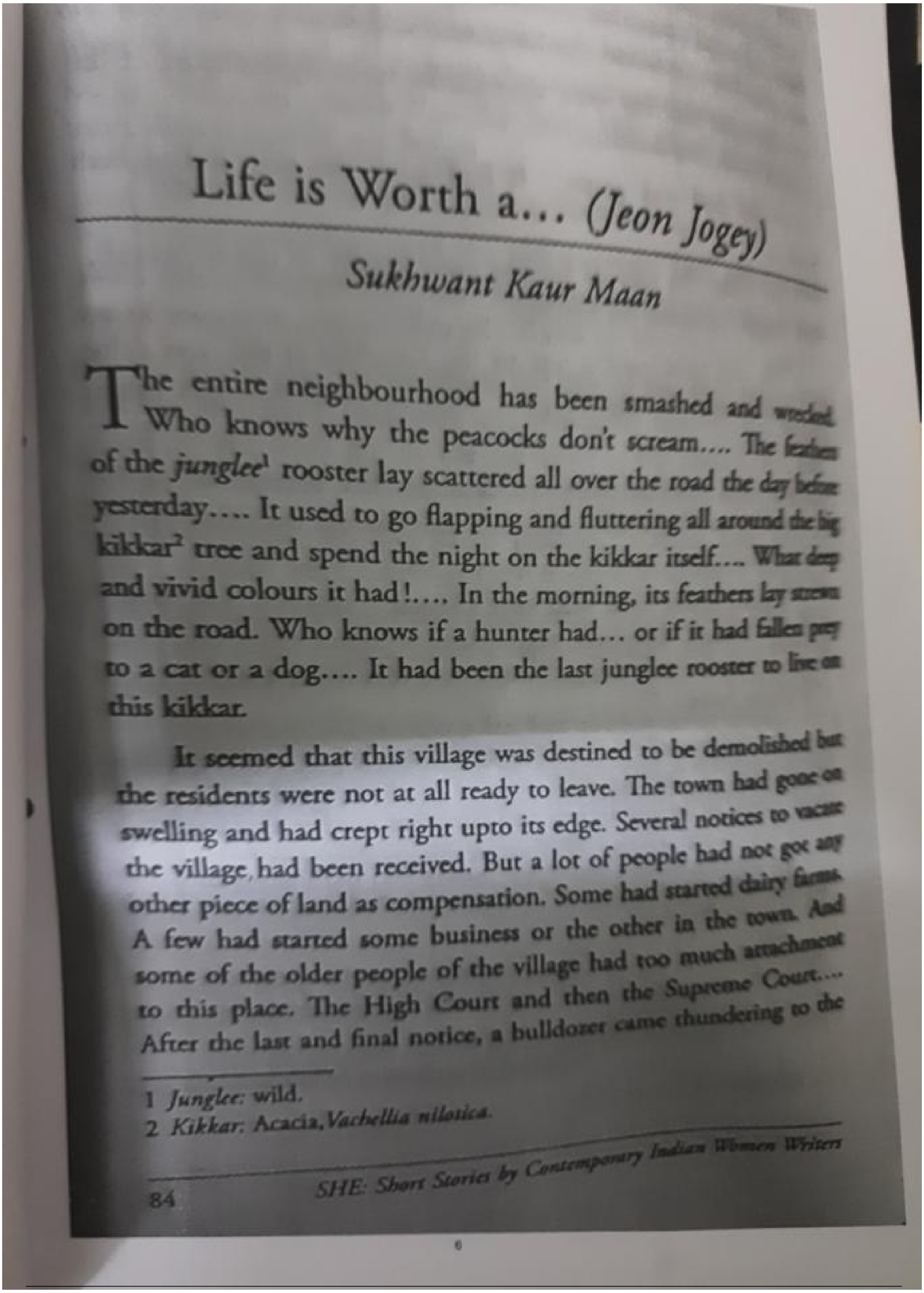
Rashpinder Rashim

When the first stitch in the lower torso of the doll came undone, Simmi was fast asleep, snuggled close to Biji's legs, while nine or ten women were busy talking.

Although that large, sprawling house was divided into several parts, it had a large common room right in the middle where the women of the household and of a few neighbouring houses would gather in the late afternoons. The neighbours' children would also tag along and play with the children of the household. The mothers would leave in the evening but the children would play till it grew dark; and during holidays, till late at night.

Achint Bhuaji used to come during the summer vacations with her only son, Laadi, and stay on for a month or a month and a half. Laadi was a pampered, single child; on top of that, as he was visiting his maternal grandparents, all his wishes, tantrums and destructive impulses were endured with a smiling face. Not a single woman of the household had the temerity to complain about the sister-in-law-married-to-a-police-officer, lest she took umbrage.

As soon as Laadi arrived, he gathered all the neighbouring children around and they would keep the house in an uproar all day long.



Life is Worth a... *(Jeon Jogey)*

Sukhwant Kaur Maan

The entire neighbourhood has been smashed and wrecked. Who knows why the peacocks don't scream.... The feathers of the *junglee*[1] rooster lay scattered all over the road the day before yesterday.... It used to go flapping and fluttering all around the big kikkar[2] tree and spend the night on the kikkar itself.... What deep and vivid colours it had!.... In the morning, its feathers lay strewn on the road. Who knows if a hunter had... or if it had fallen prey to a cat or a dog.... It had been the last junglee rooster to live on this kikkar.

It seemed that this village was destined to be demolished but the residents were not at all ready to leave. The town had gone on swelling and had crept right upto its edge. Several notices to vacate the village had been received. But a lot of people had not got any other piece of land as compensation. Some had started dairy farms. A few had started some business or the other in the town. And some of the older people of the village had too much attachment to this place. The High Court and then the Supreme Court.... After the last and final notice, a bulldozer came thundering to the

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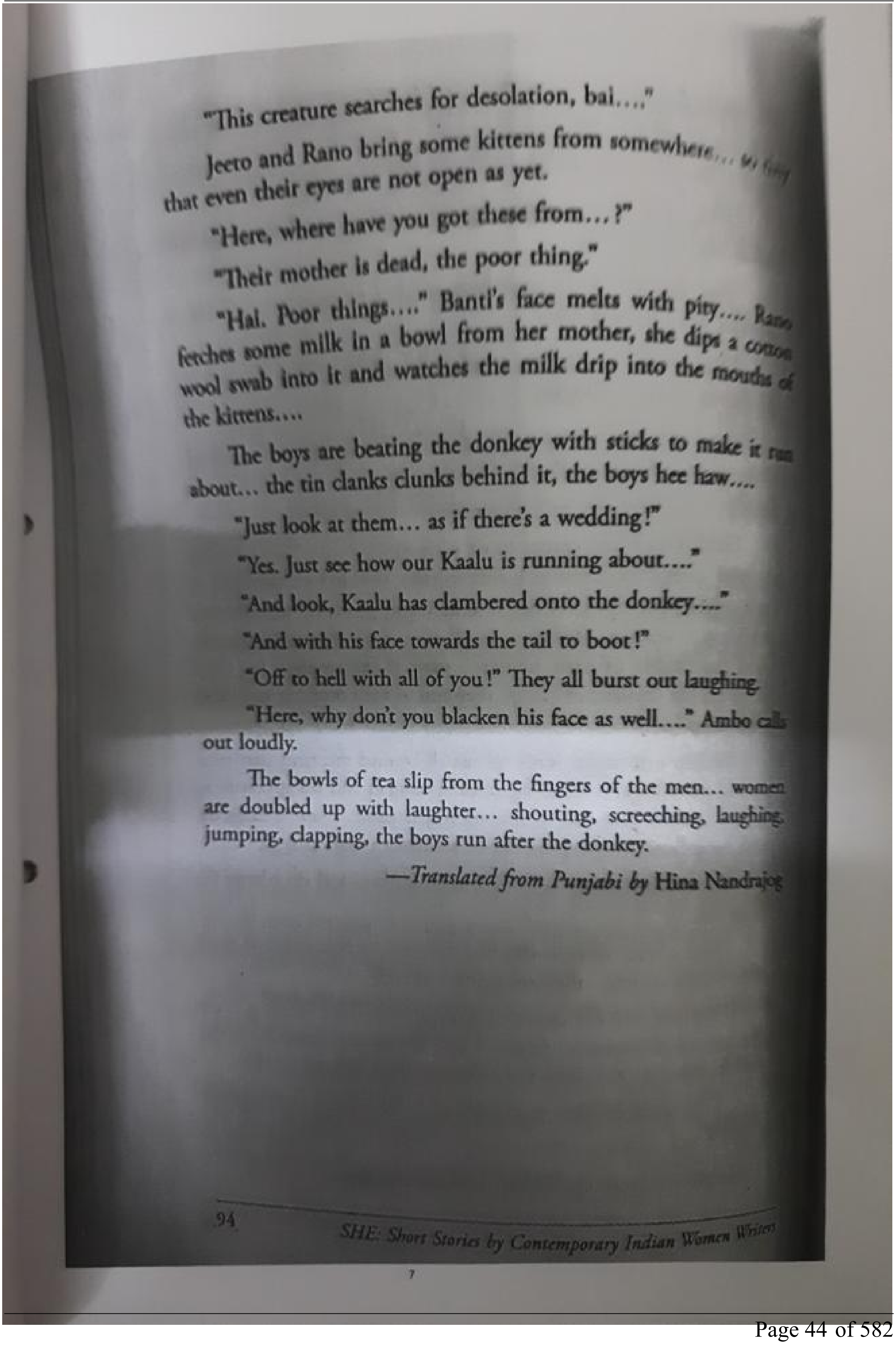
1 *Junglee*: wild.

2 *Kikkar*: Acacia, *Vachellia nilotica*.



"This creature searches for desolation, bai...."

Jeeto and Rano bring some kittens from somewhere... so tiny that even their eyes are not open as yet.

"Here, where have you got these from...?"

"Their mother is dead, the poor thing."

"Hai. Poor things...." Banti's face melts with pity.... Rano fetches some milk in a bowl from her mother, she dips a cotton wool swab into it and watches the milk drip into the mouths of the kittens....

The boys are beating the donkey with sticks to make it run about... the tin clanks clunks behind it, the boys hee haw....

"Just look at them... as if there's a wedding!"

"Yes. Just see how our Kaalu is running about...."

"And look, Kaalu has clambered onto the donkey...."

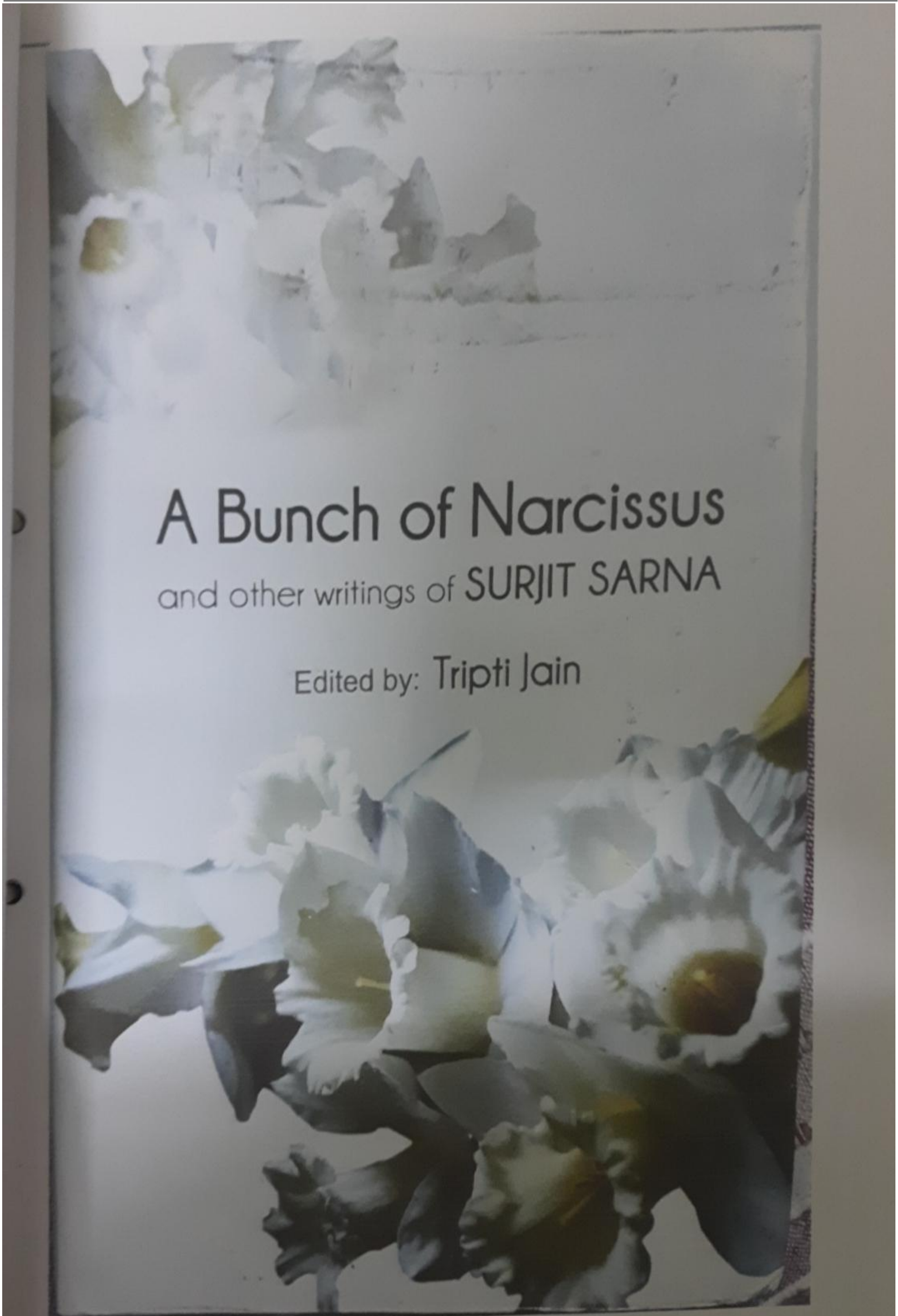
"And with his face towards the tail to boot!"

"Off to hell with all of you!" They all burst out laughing.

"Here, why don't you blacken his face as well...." Ambo calls out loudly.

The bowls of tea slip from the fingers of the men... women are doubled up with laughter... shouting, screeching, laughing, jumping, clapping, the boys run after the donkey.

—*Translated from Punjabi by* Hina Nandrajog



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and other writings of SURJIT SARNA

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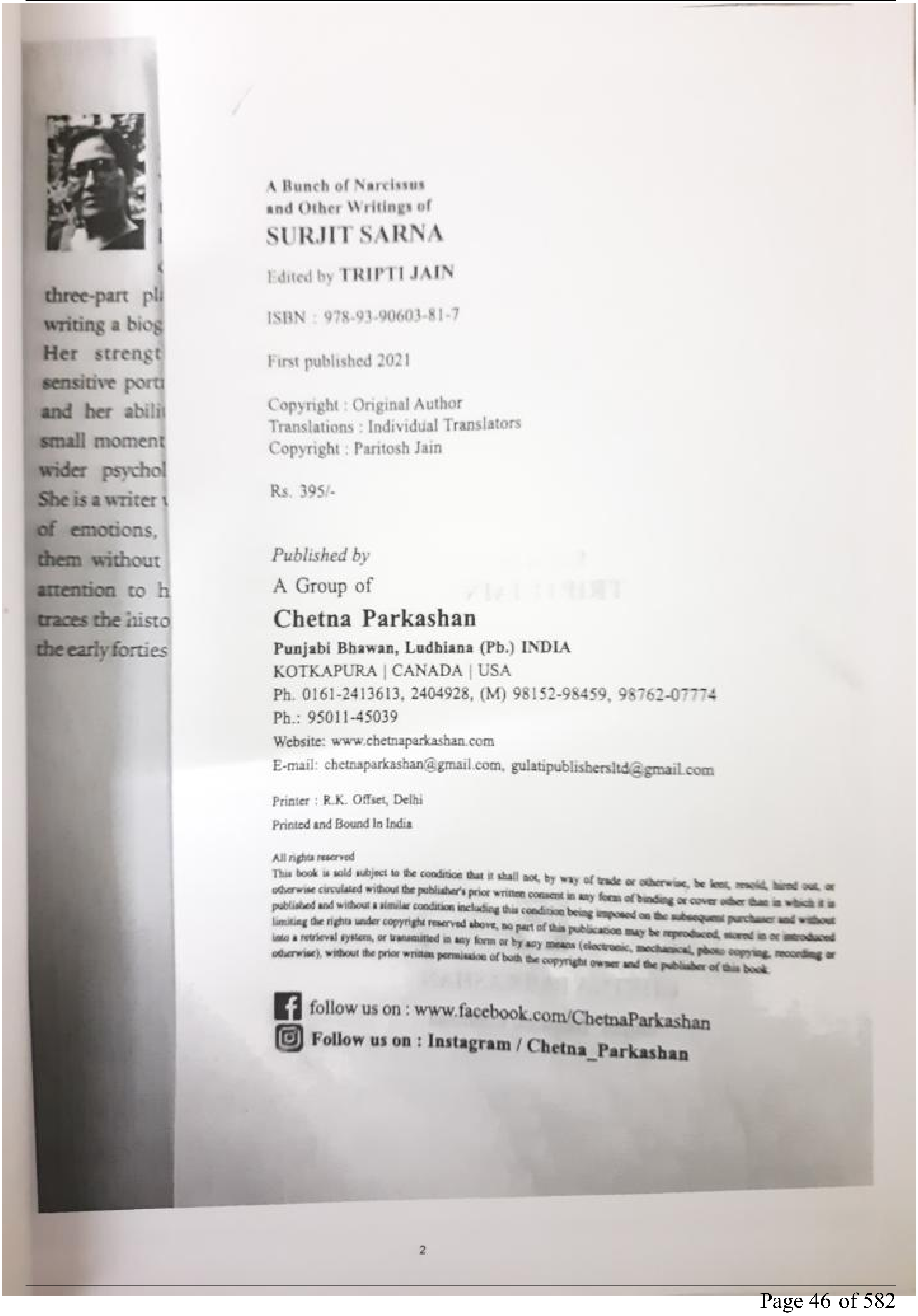

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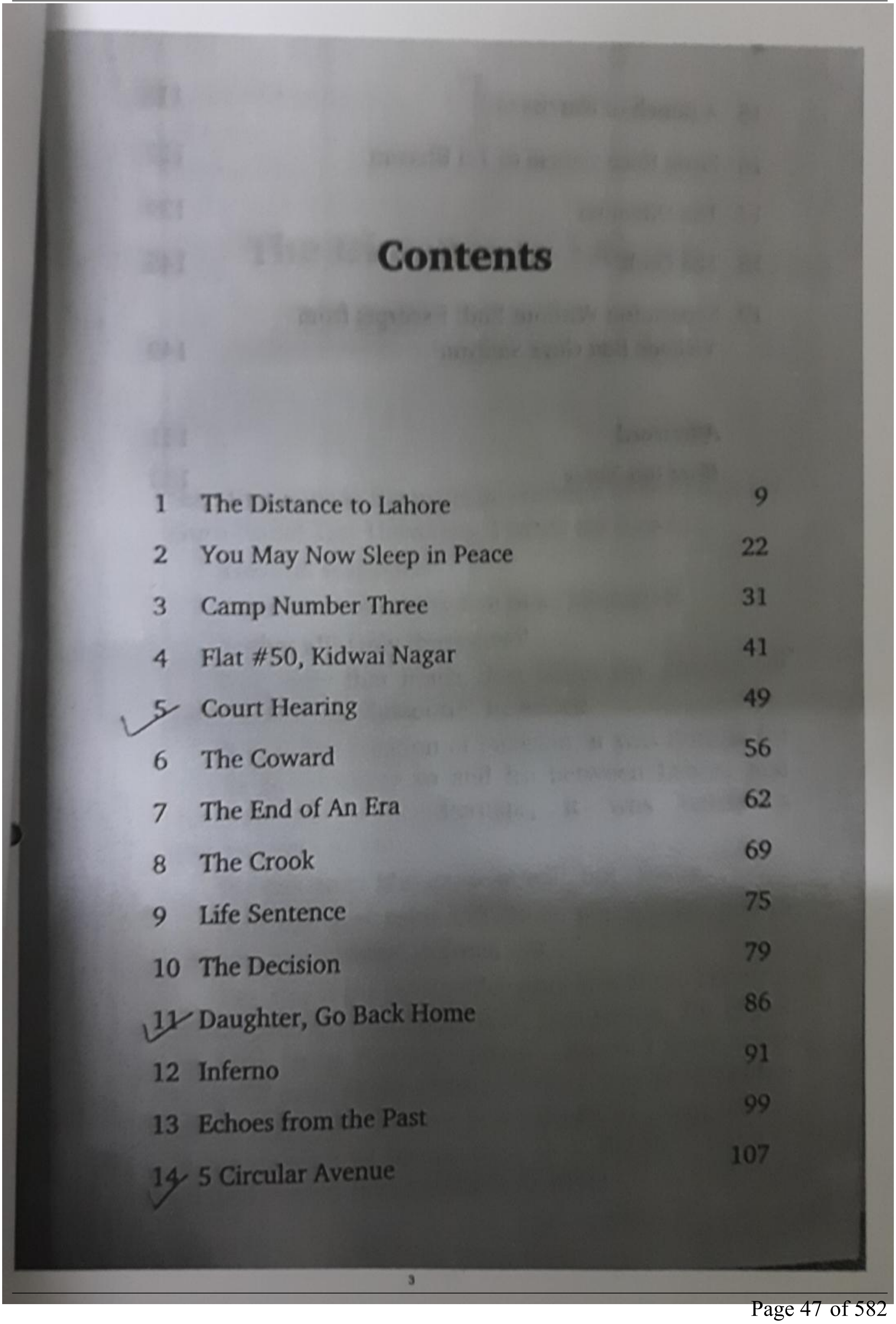

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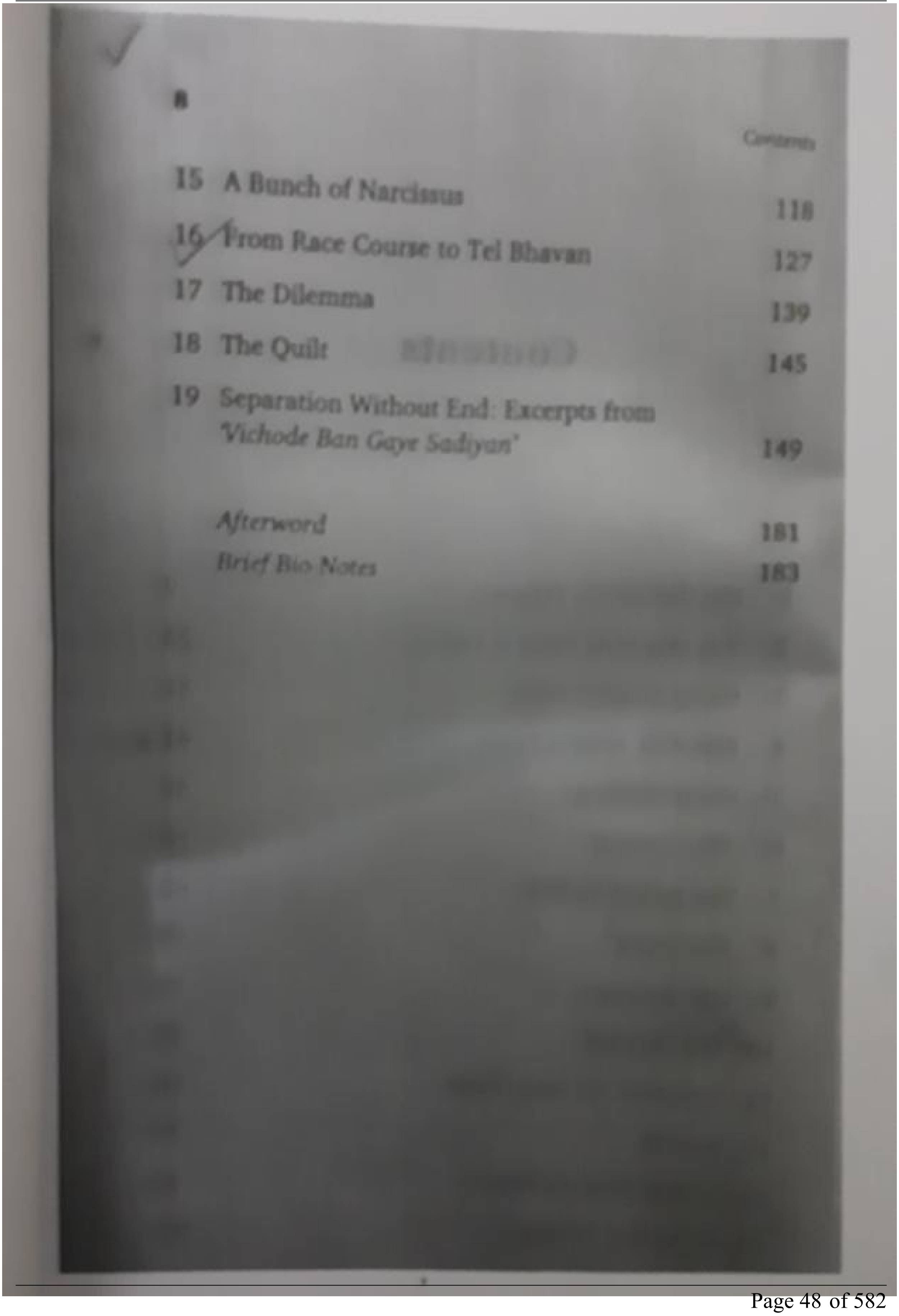
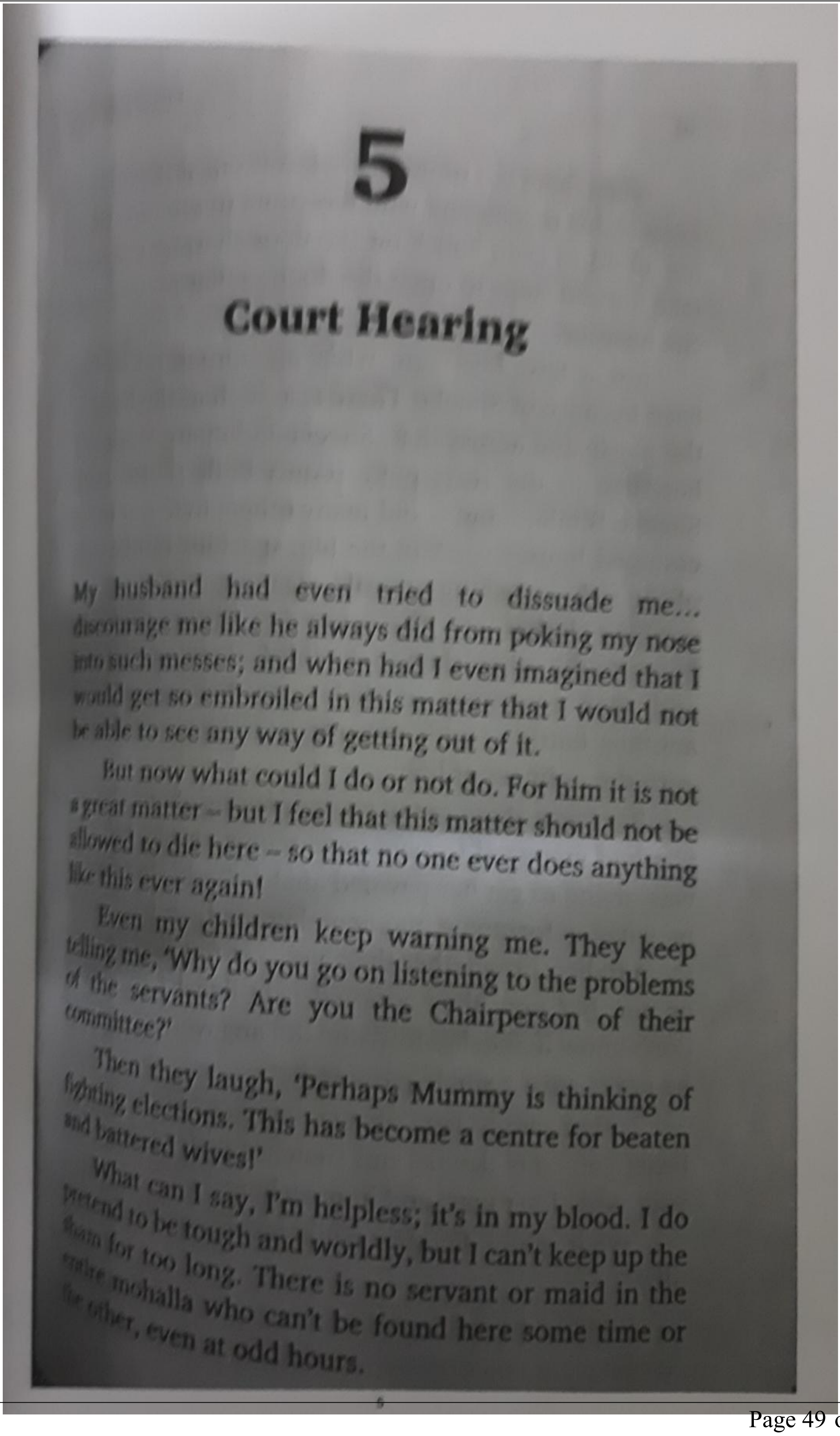




5

Court Hearing

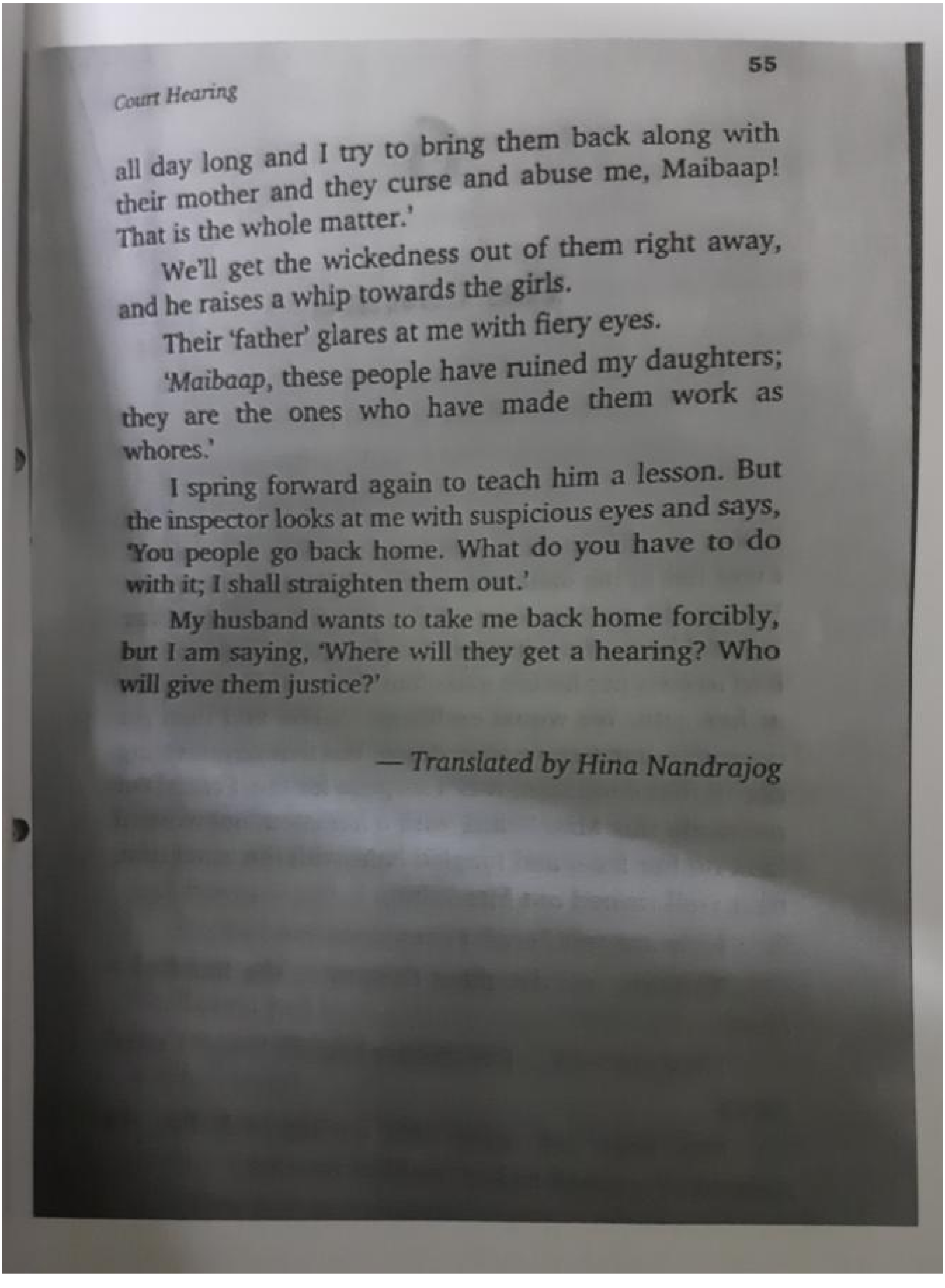
My husband had even tried to dissuade me... discourage me like he always did from poking my nose into such messes; and when had I even imagined that I would get so embroiled in this matter that I would not be able to see any way of getting out of it.

But now what could I do or not do. For him it is not a great matter – but I feel that this matter should not be allowed to die here – so that no one ever does anything like this ever again!

Even my children keep warning me. They keep telling me, 'Why do you go on listening to the problems of the servants? Are you the Chairperson of their committee?'

Then they laugh, 'Perhaps Mummy is thinking of fighting elections. This has become a centre for beaten and battered wives!'

What can I say, I'm helpless; it's in my blood. I do pretend to be tough and worldly, but I can't keep up the sham for too long. There is no servant or maid in the entire mohalla who can't be found here some time or the other, even at odd hours.



all day long and I try to bring them back along with their mother and they curse and abuse me, Maibaap! That is the whole matter.'

We'll get the wickedness out of them right away, and he raises a whip towards the girls.

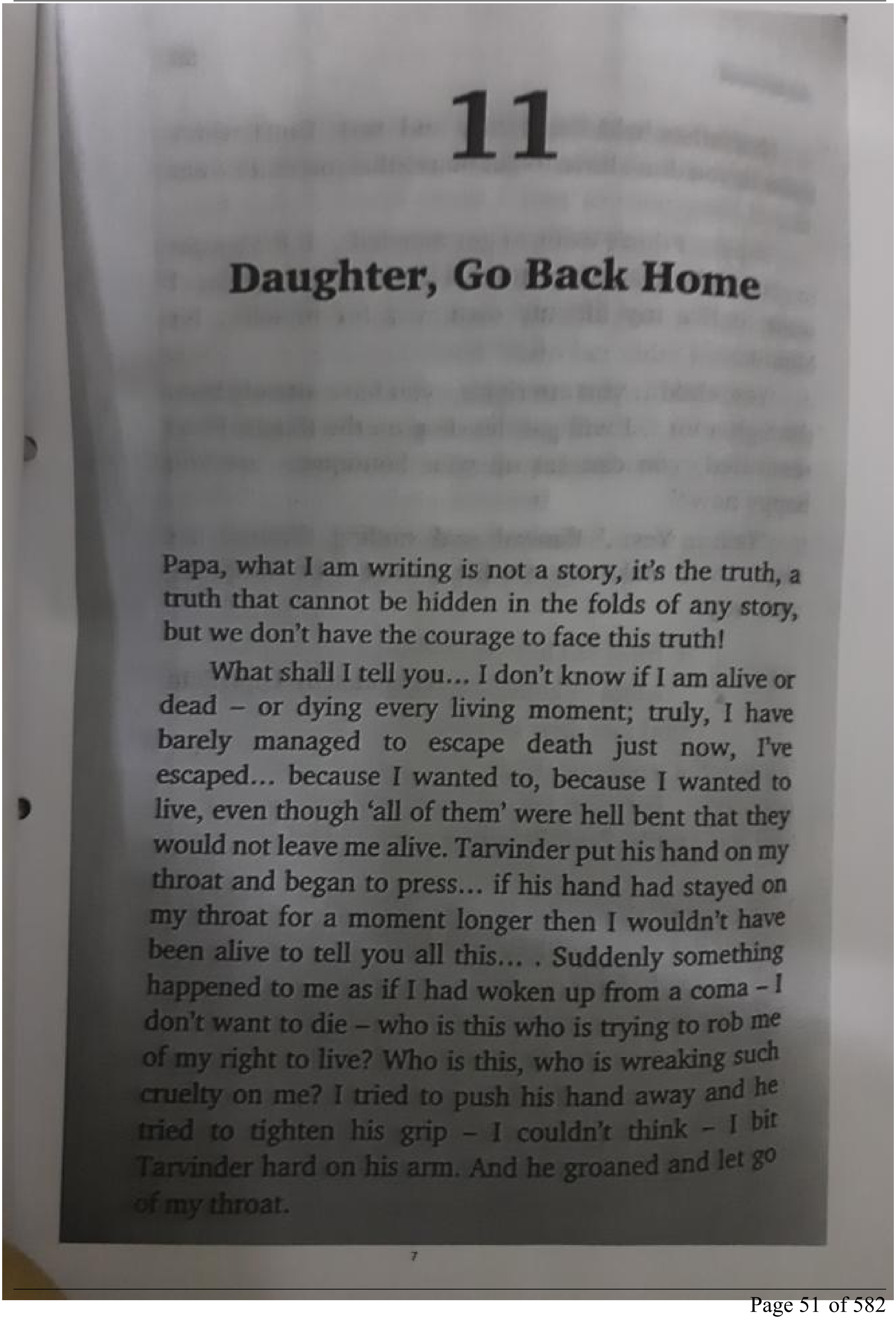
Their 'father' glares at me with fiery eyes.

'*Maibaap*, these people have ruined my daughters; they are the ones who have made them work as whores.'

I spring forward again to teach him a lesson. But the inspector looks at me with suspicious eyes and says, 'You people go back home. What do you have to do with it; I shall straighten them out.'

My husband wants to take me back home forcibly, but I am saying, 'Where will they get a hearing? Who will give them justice?'

— *Translated by Hina Nandrajog*

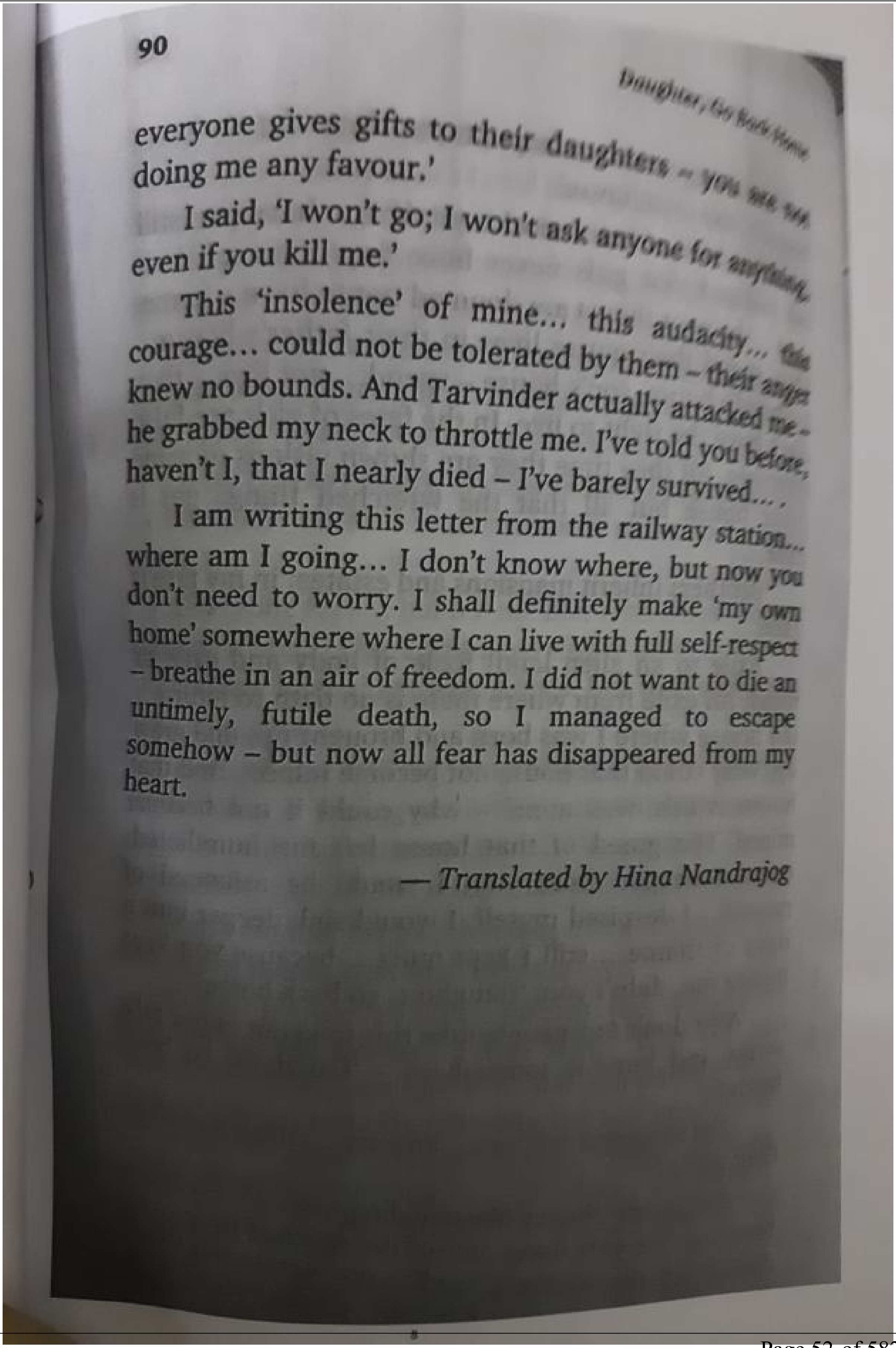


11

Daughter, Go Back Home

Papa, what I am writing is not a story, it's the truth, a truth that cannot be hidden in the folds of any story, but we don't have the courage to face this truth!

What shall I tell you... I don't know if I am alive or dead – or dying every living moment; truly, I have barely managed to escape death just now, I've escaped... because I wanted to, because I wanted to live, even though 'all of them' were hell bent that they would not leave me alive. Tarvinder put his hand on my throat and began to press... if his hand had stayed on my throat for a moment longer then I wouldn't have been alive to tell you all this... . Suddenly something happened to me as if I had woken up from a coma – I don't want to die – who is this who is trying to rob me of my right to live? Who is this, who is wreaking such cruelty on me? I tried to push his hand away and he tried to tighten his grip – I couldn't think – I bit Tarvinder hard on his arm. And he groaned and let go of my throat.



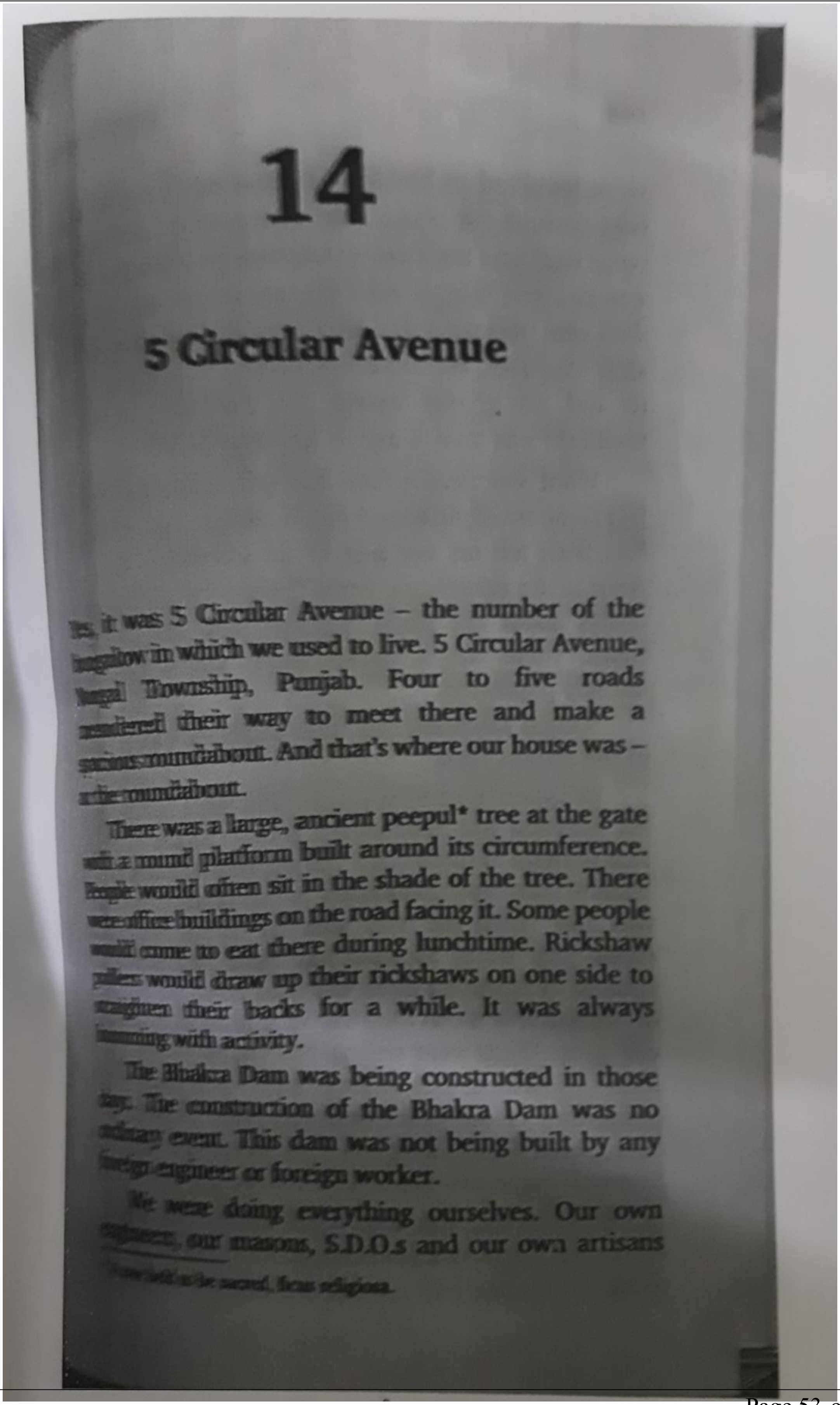
everyone gives gifts to their daughters – you are not doing me any favour.'

I said, 'I won't go; I won't ask anyone for anything, even if you kill me.'

This 'insolence' of mine... this audacity... this courage... could not be tolerated by them – their anger knew no bounds. And Tarvinder actually attacked me – he grabbed my neck to throttle me. I've told you before, haven't I, that I nearly died – I've barely survived....

I am writing this letter from the railway station... where am I going... I don't know where, but now you don't need to worry. I shall definitely make 'my own home' somewhere where I can live with full self-respect – breathe in an air of freedom. I did not want to die an untimely, futile death, so I managed to escape somehow – but now all fear has disappeared from my heart.

— *Translated by Hina Nandrajog*



14

5 Circular Avenue

Yes, it was 5 Circular Avenue – the number of the bungalow in which we used to live. 5 Circular Avenue, Nangal Township, Punjab. Four to five roads meandered their way to meet there and make a spacious roundabout. And that's where our house was – at the roundabout.

There was a large, ancient peepul* tree at the gate with a round platform built around its circumference. People would often sit in the shade of the tree. There were office buildings on the road facing it. Some people would come to eat there during lunchtime. Rickshaw pullers would draw up their rickshaws on one side to straighten their backs for a while. It was always humming with activity.

The Bhakra Dam was being constructed in those days. The construction of the Bhakra Dam was no ordinary event. This dam was not being built by any foreign engineer or foreign worker.

We were doing everything ourselves. Our own engineers, our masons, S.D.O.s and our own artisans

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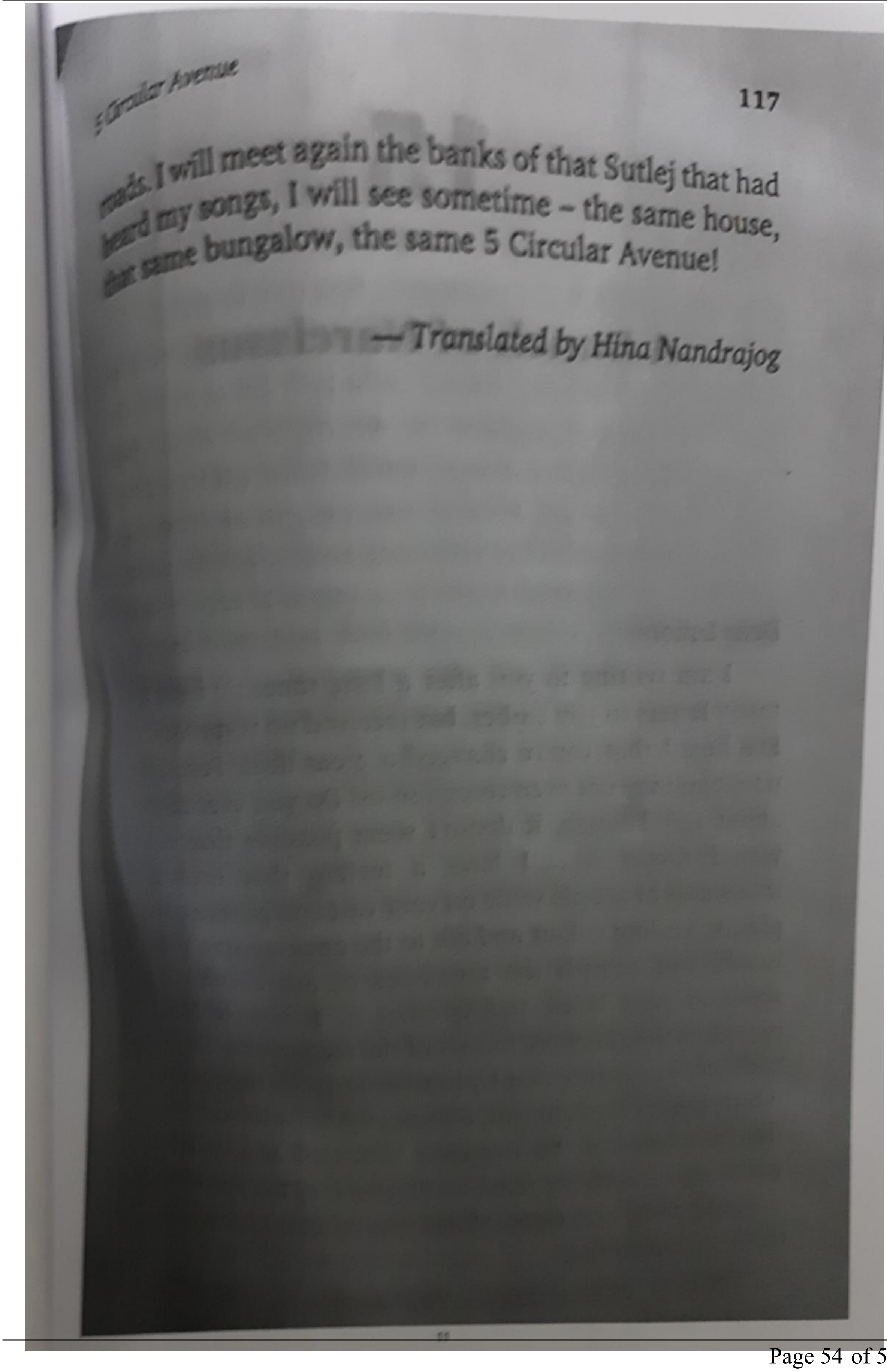
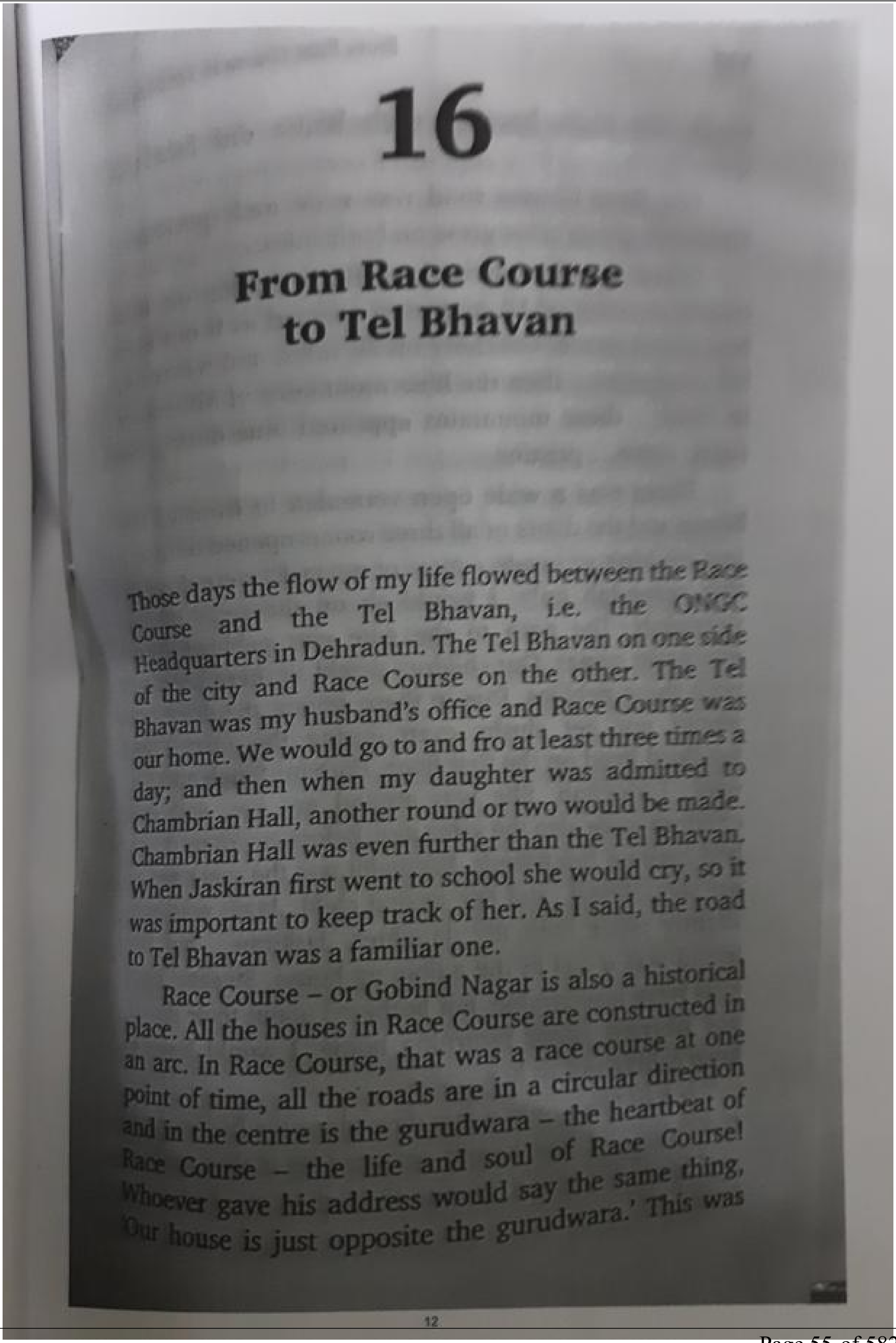
*Tree held to be sacred, ficus religiosa.



roads. I will meet again the banks of that Sutlej that had heard my songs, I will see sometime – the same house, that same bungalow, the same 5 Circular Avenue!

— *Translated by Hina Nandrajog*

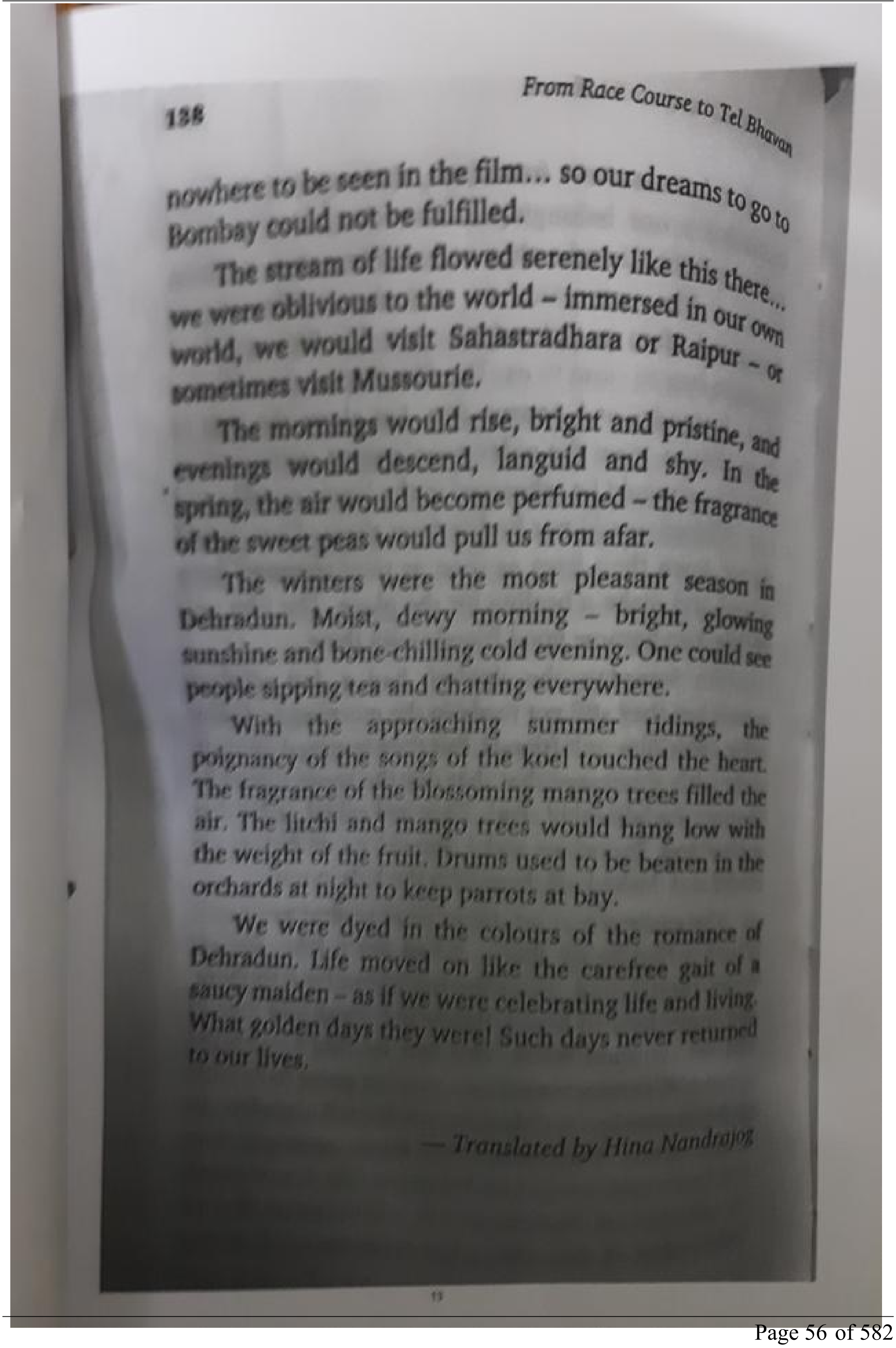


16

From Race Course to Tel Bhavan

Those days the flow of my life flowed between the Race Course and the Tel Bhavan, i.e. the ONGC Headquarters in Dehradun. The Tel Bhavan on one side of the city and Race Course on the other. The Tel Bhavan was my husband's office and Race Course was our home. We would go to and fro at least three times a day; and then when my daughter was admitted to Chambrian Hall, another round or two would be made. Chambrian Hall was even further than the Tel Bhavan. When Jaskiran first went to school she would cry, so it was important to keep track of her. As I said, the road to Tel Bhavan was a familiar one.

Race Course – or Gobind Nagar is also a historical place. All the houses in Race Course are constructed in an arc. In Race Course, that was a race course at one point of time, all the roads are in a circular direction and in the centre is the gurudwara – the heartbeat of Race Course – the life and soul of Race Course! Whoever gave his address would say the same thing, Our house is just opposite the gurudwara.' This was



nowhere to be seen in the film… so our dreams to go to Bombay could not be fulfilled.

The stream of life flowed serenely like this there… we were oblivious to the world – immersed in our own world, we would visit Sahastradhara or Raipur – or sometimes visit Mussourie.

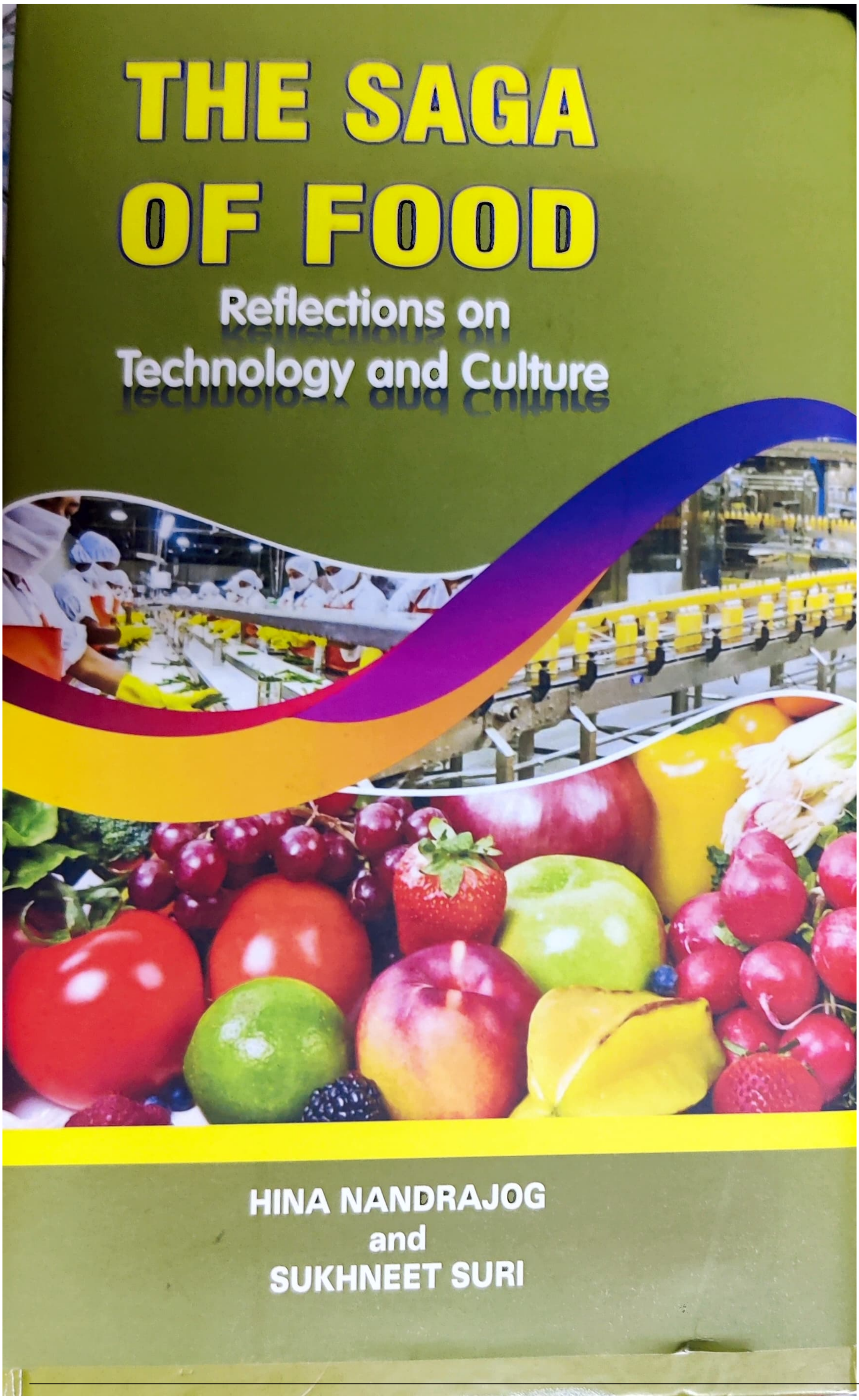
The mornings would rise, bright and pristine, and evenings would descend, languid and shy. In the spring, the air would become perfumed – the fragrance of the sweet peas would pull us from afar.

The winters were the most pleasant season in Dehradun. Moist, *dewy* morning – bright, glowing sunshine and bone-chilling cold evening. One could see people sipping tea and chatting everywhere.

With the approaching summer tidings, the poignancy of the songs of the koel touched the heart. The fragrance of the blossoming mango trees filled the air. The litchi and mango trees would hang low with the weight of the fruit. Drums used to be beaten in the orchards at night to keep parrots at bay.

We were dyed in the colours of the romance of Dehradun. Life moved on like the carefree gait of a saucy maiden – as if we were celebrating life and living. What golden days they were! Such days never returned to our lives.

— Translated by Hina Nandrajog



THE SAGA OF FOOD

Reflections on Technology and Culture

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and
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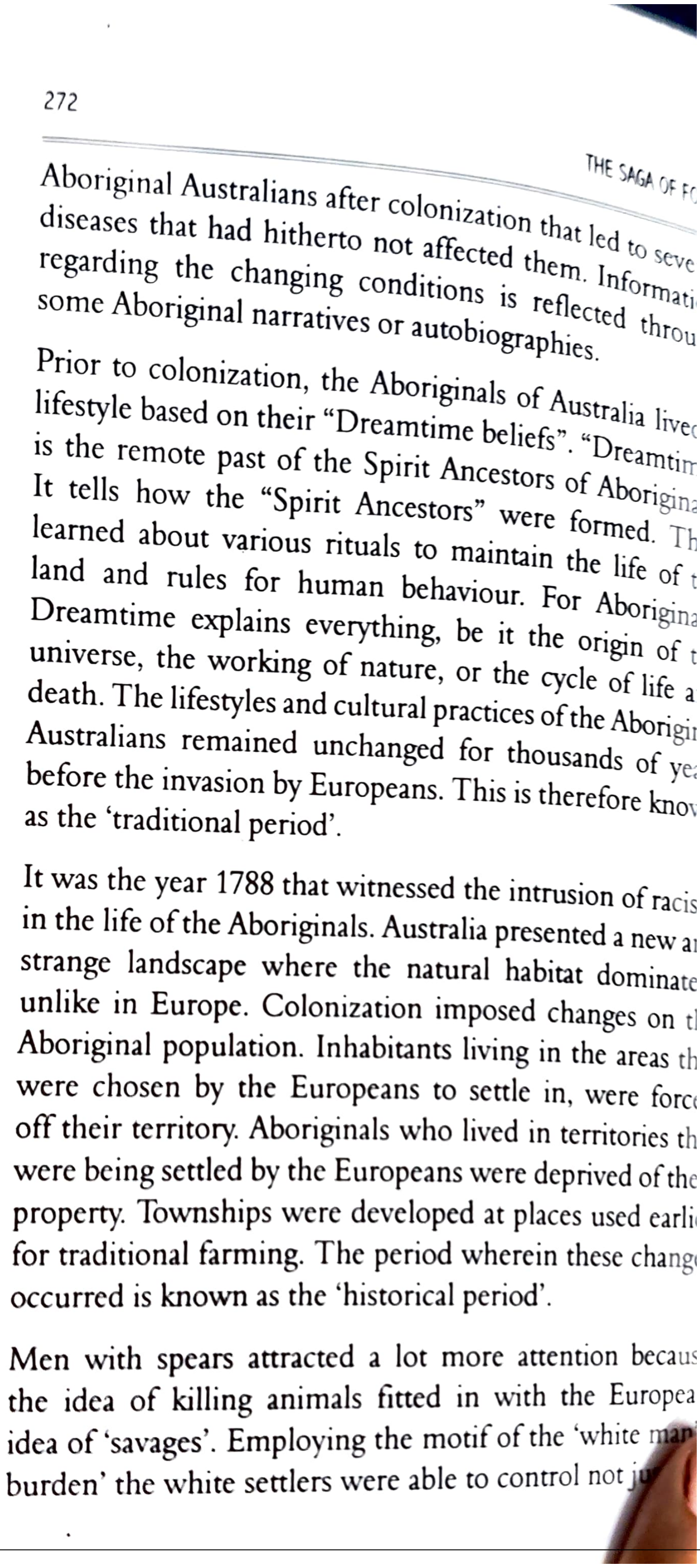
Lifestyle Diseases – A Threat to Aboriginal Australians

Nalini Gandhi Kapoor

The word ‘Aborigine’ stands for the people who have lived in Australia from the beginning; an indigenous population that lived there prior to European settlers. Recent government statistics suggest that there are approximately 400,000 Aboriginal people, or about 2 per cent of Australia’s total population. It is believed that Australian Aborigines migrated from places in Asia at least 30,000 years ago. Although they possess some unifying links yet they comprise 500-600 distinct groups. Aboriginal people have long maintained that they have ‘special’ rights, distinct from other ethnic groups. These rights, include property rights (such as title to lands not ceded), the right to hunt, fish, and trap on traditional lands, and political rights (such as the right to self-government). They are presently called aboriginal rights.

“*However, the use of the term indigenous is also considered controversial. It is also been claimed by descendants of people who weren’t the original inhabitants of the island. Legally, “Aboriginal Australian” is recognized as “a person of Aboriginal or Torres Strait Islander descent who identifies as an Aboriginal or Torres Strait Islander and is accepted as such by the community in which he [or she] lives*” (Blakemore, 2019).

This essay explores the change in the lifestyle of the

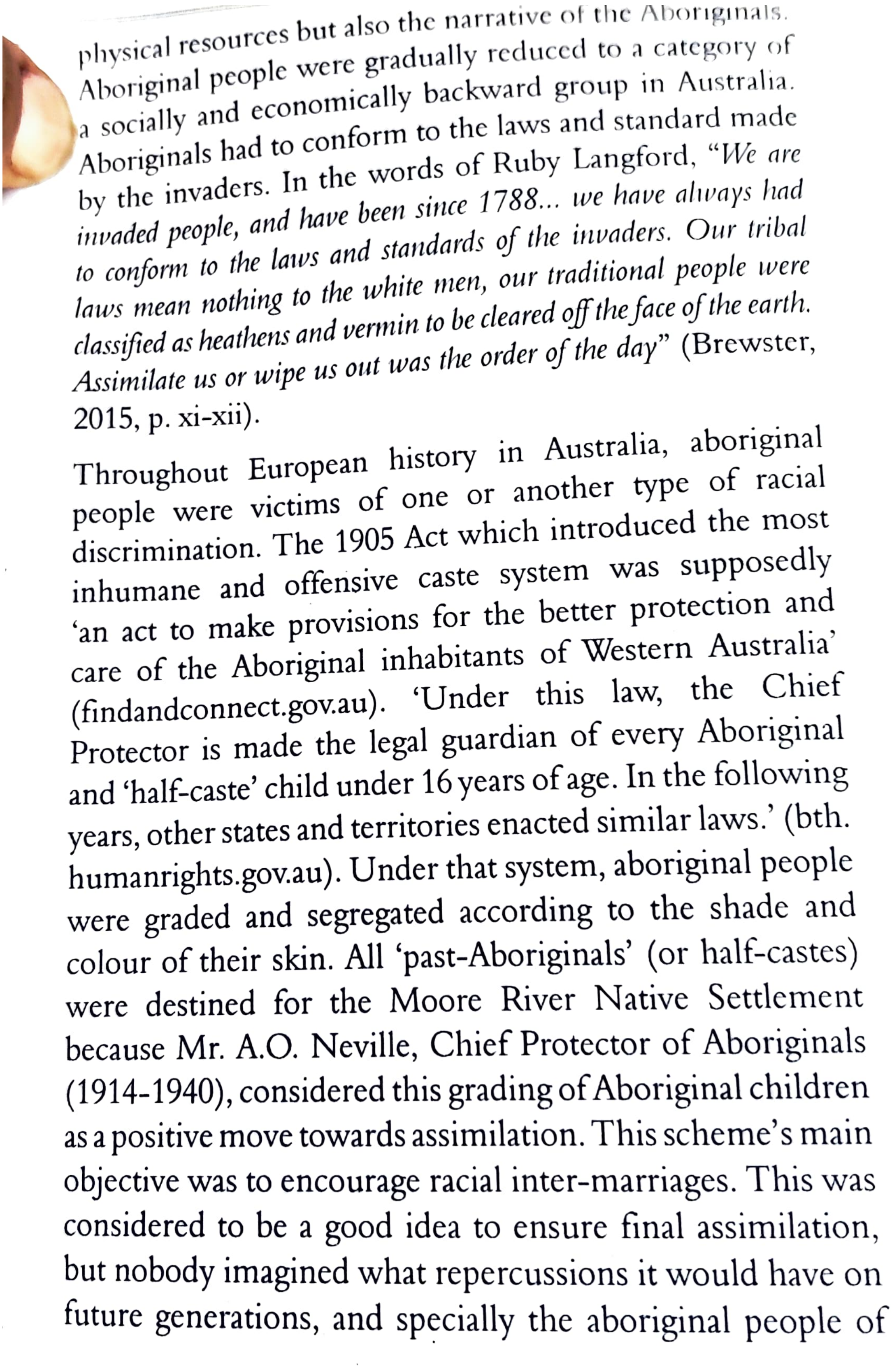


Aboriginal Australians after colonization that led to seve diseases that had hitherto not affected them. Informat regarding the changing conditions is reflected throu some Aboriginal narratives or autobiographies.

Prior to colonization, the Aboriginals of Australia live lifestyle based on their "Dreamtime beliefs". "Dreamti is the remote past of the Spirit Ancestors of Aborigin It tells how the "Spirit Ancestors" were formed. Th learned about various rituals to maintain the life of land and rules for human behaviour. For Aborigin Dreamtime explains everything, be it the origin of universe, the working of nature, or the cycle of life a death. The lifestyles and cultural practices of the Aborigi Australians remained unchanged for thousands of ye before the invasion by Europeans. This is therefore kno as the 'traditional period'.

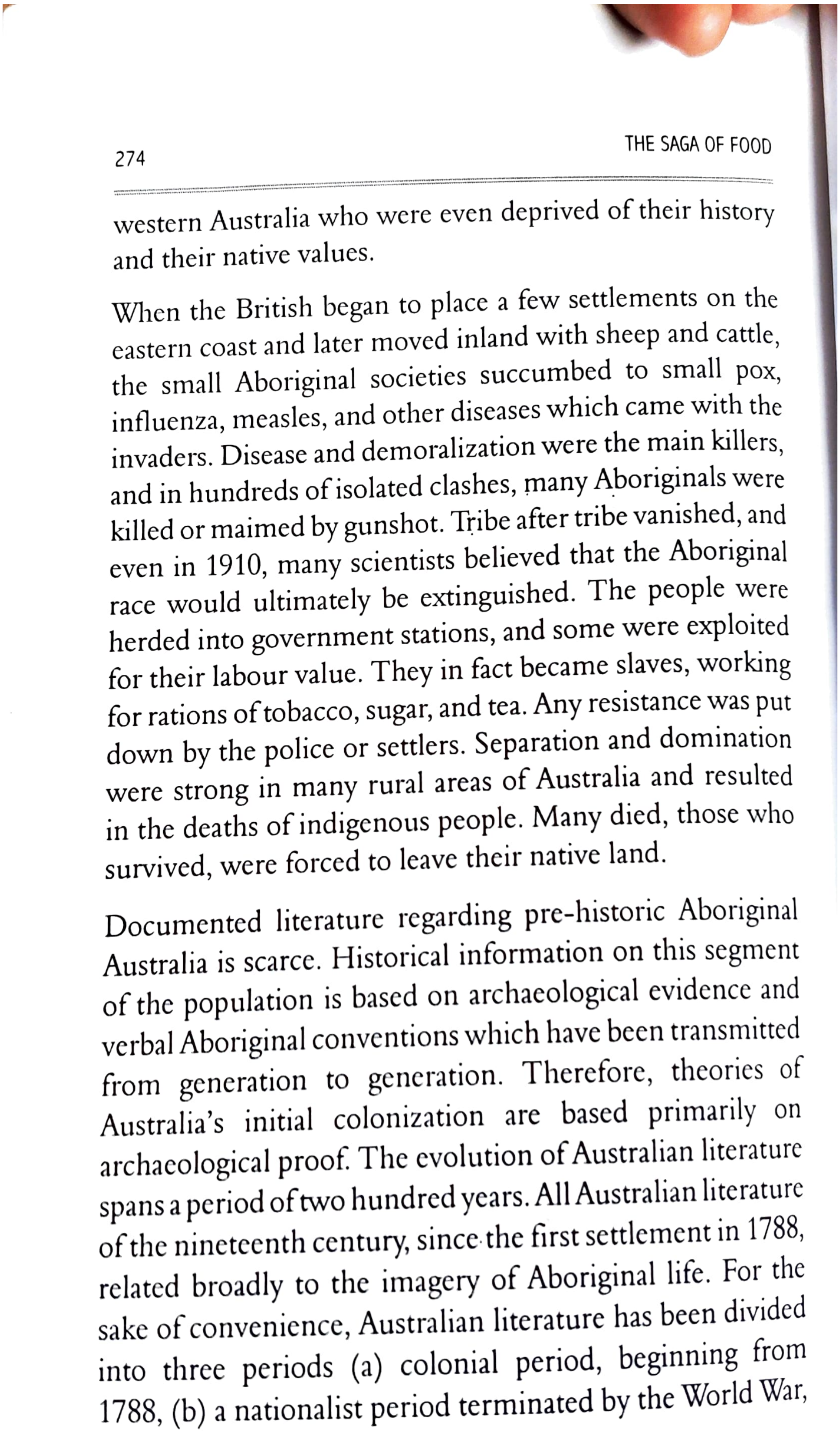
It was the year 1788 that witnessed the intrusion of racis in the life of the Aboriginals. Australia presented a new a strange landscape where the natural habitat dominat unlike in Europe. Colonization imposed changes on t Aboriginal population. Inhabitants living in the areas th were chosen by the Europeans to settle in, were forc off their territory. Aboriginals who lived in territories th were being settled by the Europeans were deprived of the property. Townships were developed at places used earli for traditional farming. The period wherein these chang occurred is known as the 'historical period'.

Men with spears attracted a lot more attention becaus the idea of killing animals fitted in with the Europea idea of 'savages'. Employing the motif of the 'white ma burden' the white settlers were able to control not j



physical resources but also the narrative of the Aboriginals. Aboriginal people were gradually reduced to a category of a socially and economically backward group in Australia. Aboriginals had to conform to the laws and standard made by the invaders. In the words of Ruby Langford, "*We are invaded people, and have been since 1788... we have always had to conform to the laws and standards of the invaders. Our tribal laws mean nothing to the white men, our traditional people were classified as heathens and vermin to be cleared off the face of the earth. Assimilate us or wipe us out was the order of the day*" (Brewster, 2015, p. xi-xii).

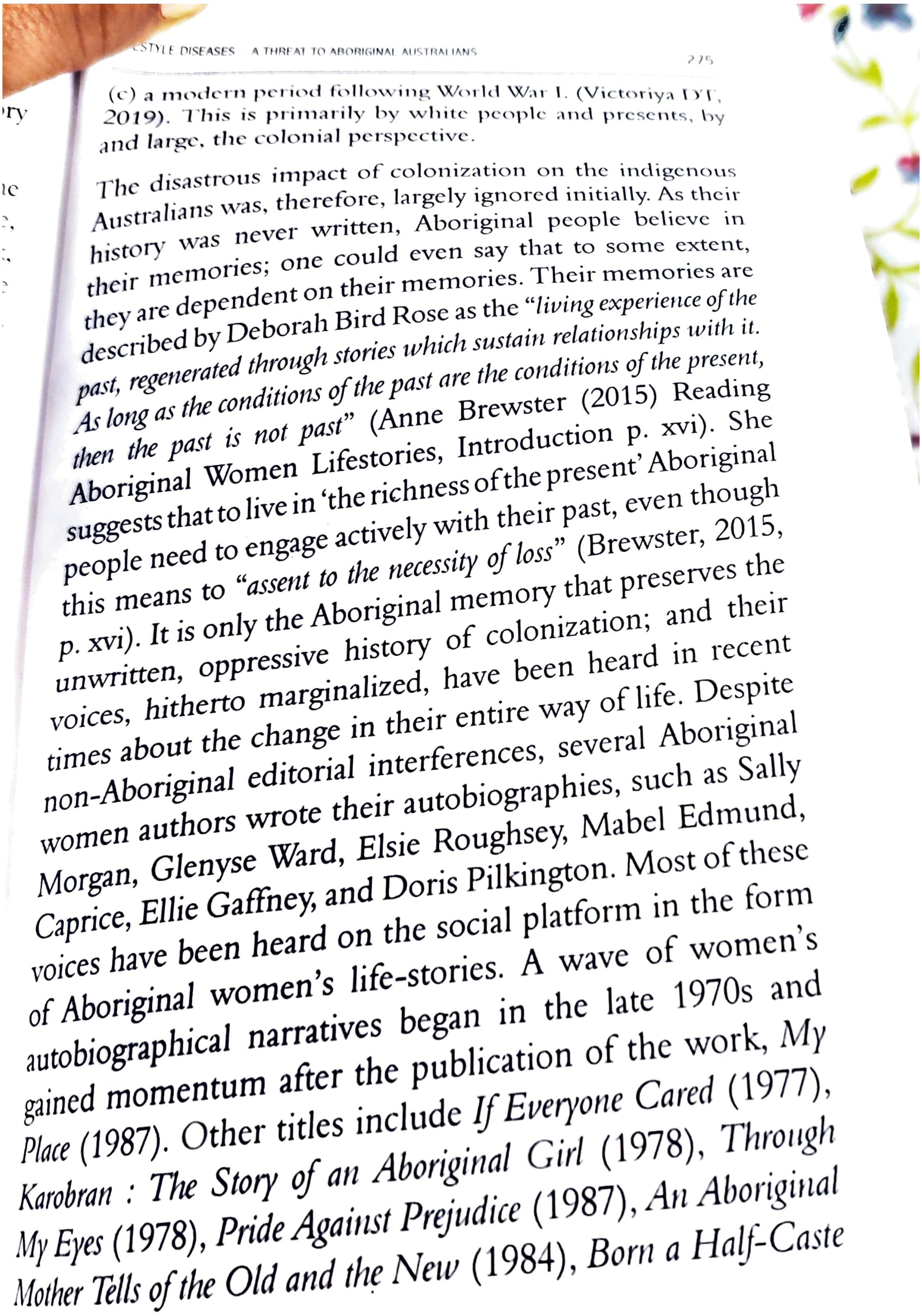
Throughout European history in Australia, aboriginal people were victims of one or another type of racial discrimination. The 1905 Act which introduced the most inhumane and offensive caste system was supposedly 'an act to make provisions for the better protection and care of the Aboriginal inhabitants of Western Australia' (findandconnect.gov.au). 'Under this law, the Chief Protector is made the legal guardian of every Aboriginal and 'half-caste' child under 16 years of age. In the following years, other states and territories enacted similar laws.' (bth.humanrights.gov.au). Under that system, aboriginal people were graded and segregated according to the shade and colour of their skin. All 'past-Aboriginals' (or half-castes) were destined for the Moore River Native Settlement because Mr. A.O. Neville, Chief Protector of Aboriginals (1914-1940), considered this grading of Aboriginal children as a positive move towards assimilation. This scheme's main objective was to encourage racial inter-marriages. This was considered to be a good idea to ensure final assimilation, but nobody imagined what repercussions it would have on future generations, and specially the aboriginal people of



western Australia who were even deprived of their history and their native values.

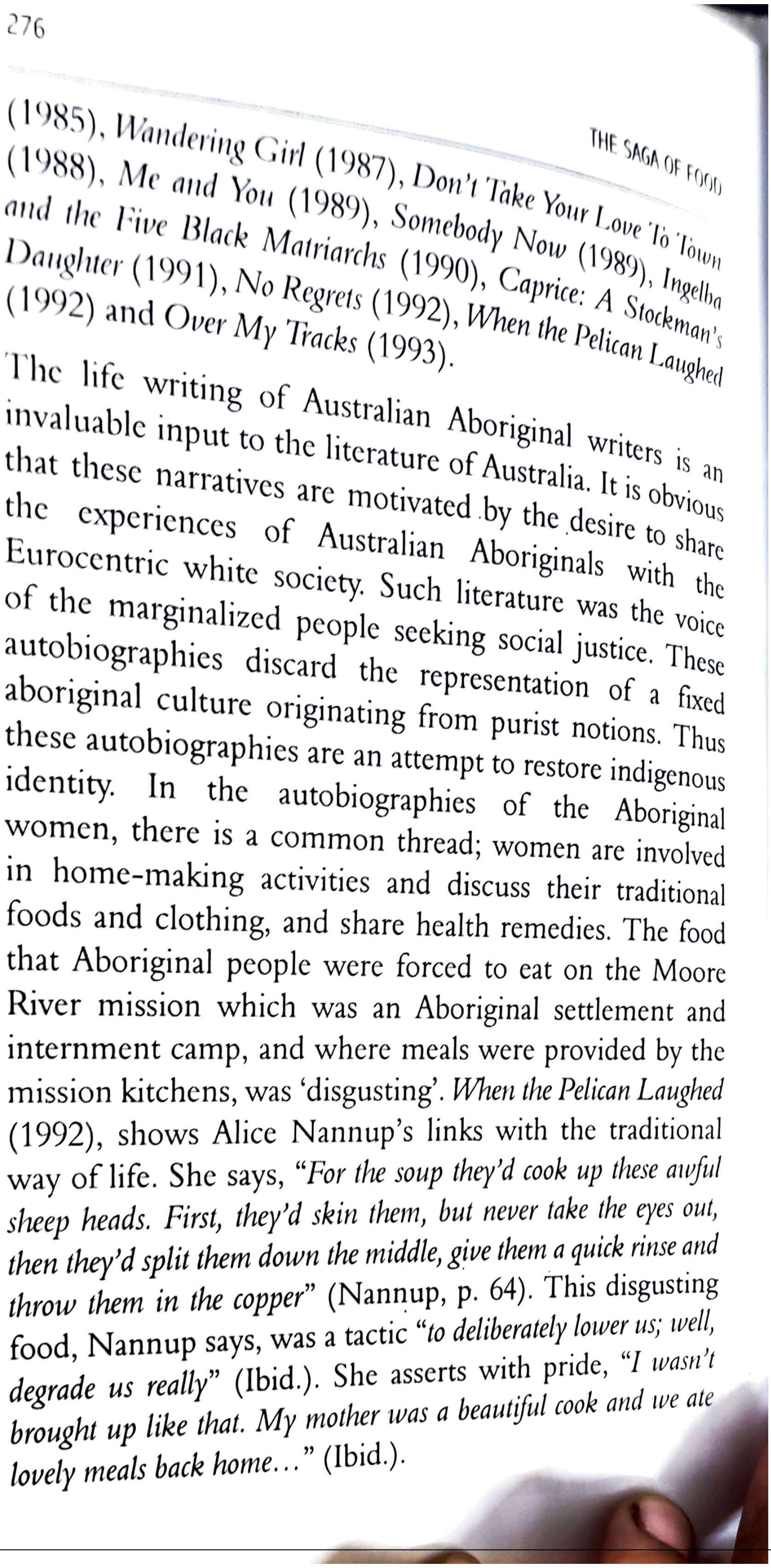
When the British began to place a few settlements on the eastern coast and later moved inland with sheep and cattle, the small Aboriginal societies succumbed to small pox, influenza, measles, and other diseases which came with the invaders. Disease and demoralization were the main killers, and in hundreds of isolated clashes, many Aboriginals were killed or maimed by gunshot. Tribe after tribe vanished, and even in 1910, many scientists believed that the Aboriginal race would ultimately be extinguished. The people were herded into government stations, and some were exploited for their labour value. They in fact became slaves, working for rations of tobacco, sugar, and tea. Any resistance was put down by the police or settlers. Separation and domination were strong in many rural areas of Australia and resulted in the deaths of indigenous people. Many died, those who survived, were forced to leave their native land.

Documented literature regarding pre-historic Aboriginal Australia is scarce. Historical information on this segment of the population is based on archaeological evidence and verbal Aboriginal conventions which have been transmitted from generation to generation. Therefore, theories of Australia's initial colonization are based primarily on archaeological proof. The evolution of Australian literature spans a period of two hundred years. All Australian literature of the nineteenth century, since the first settlement in 1788, related broadly to the imagery of Aboriginal life. For the sake of convenience, Australian literature has been divided into three periods (a) colonial period, beginning from 1788, (b) a nationalist period terminated by the World War,



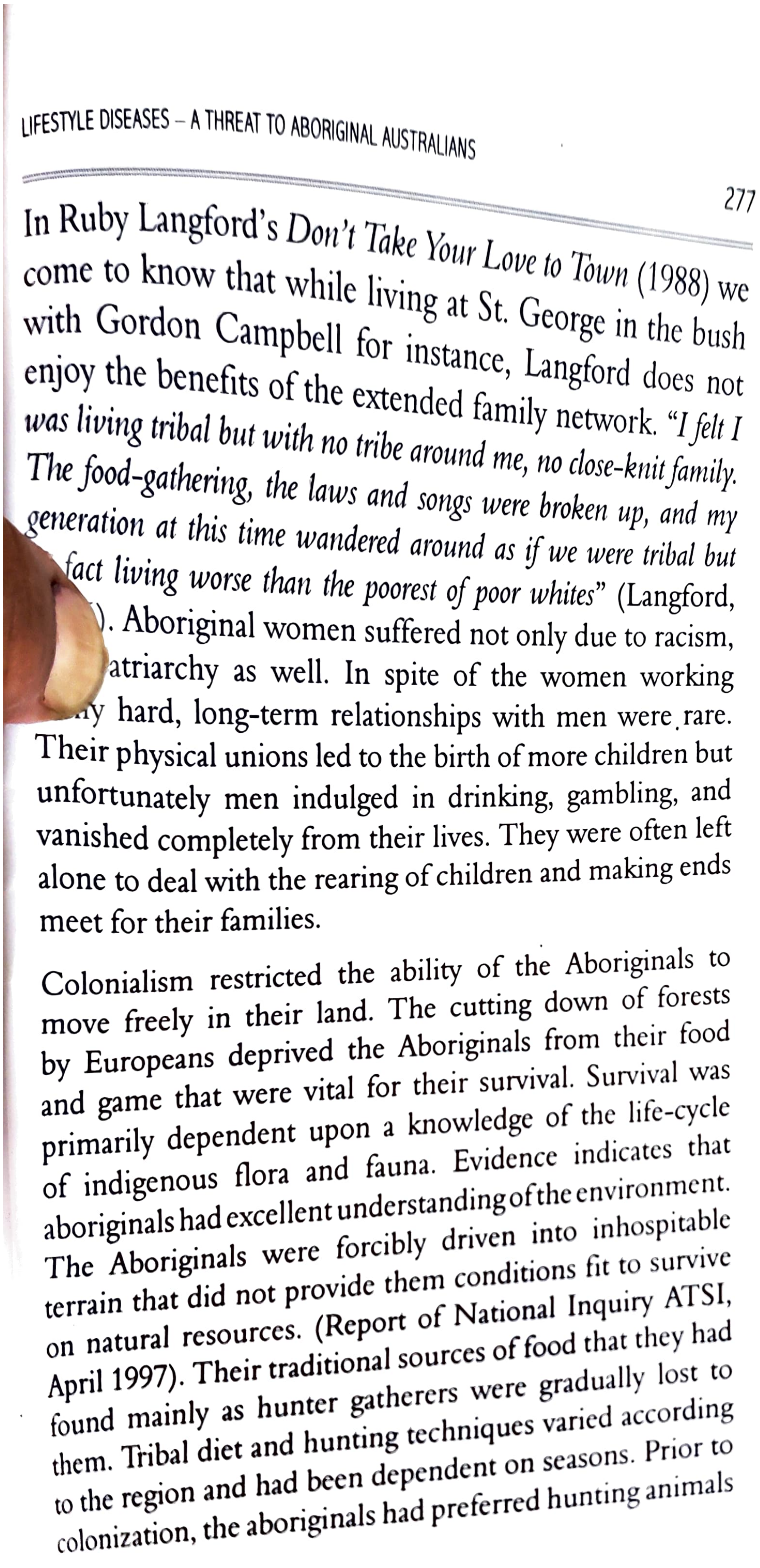
(c) a modern period following World War I. (Victoriya DT, 2019). This is primarily by white people and presents, by and large, the colonial perspective.

The disastrous impact of colonization on the indigenous Australians was, therefore, largely ignored initially. As their history was never written, Aboriginal people believe in their memories; one could even say that to some extent, they are dependent on their memories. Their memories are described by Deborah Bird Rose as the "*living experience of the past, regenerated through stories which sustain relationships with it. As long as the conditions of the past are the conditions of the present, then the past is not past*" (Anne Brewster (2015) Reading Aboriginal Women Lifestories, Introduction p. xvi). She suggests that to live in 'the richness of the present' Aboriginal people need to engage actively with their past, even though this means to "*assent to the necessity of loss*" (Brewster, 2015, p. xvi). It is only the Aboriginal memory that preserves the unwritten, oppressive history of colonization; and their voices, hitherto marginalized, have been heard in recent times about the change in their entire way of life. Despite non-Aboriginal editorial interferences, several Aboriginal women authors wrote their autobiographies, such as Sally Morgan, Glenyse Ward, Elsie Roughsey, Mabel Edmund, Caprice, Ellie Gaffney, and Doris Pilkington. Most of these voices have been heard on the social platform in the form of Aboriginal women's life-stories. A wave of women's autobiographical narratives began in the late 1970s and gained momentum after the publication of the work, *My Place* (1987). Other titles include *If Everyone Cared* (1977), *Karobran : The Story of an Aboriginal Girl* (1978), *Through My Eyes* (1978), *Pride Against Prejudice* (1987), *An Aboriginal Mother Tells of the Old and the New* (1984), *Born a Half-Caste*



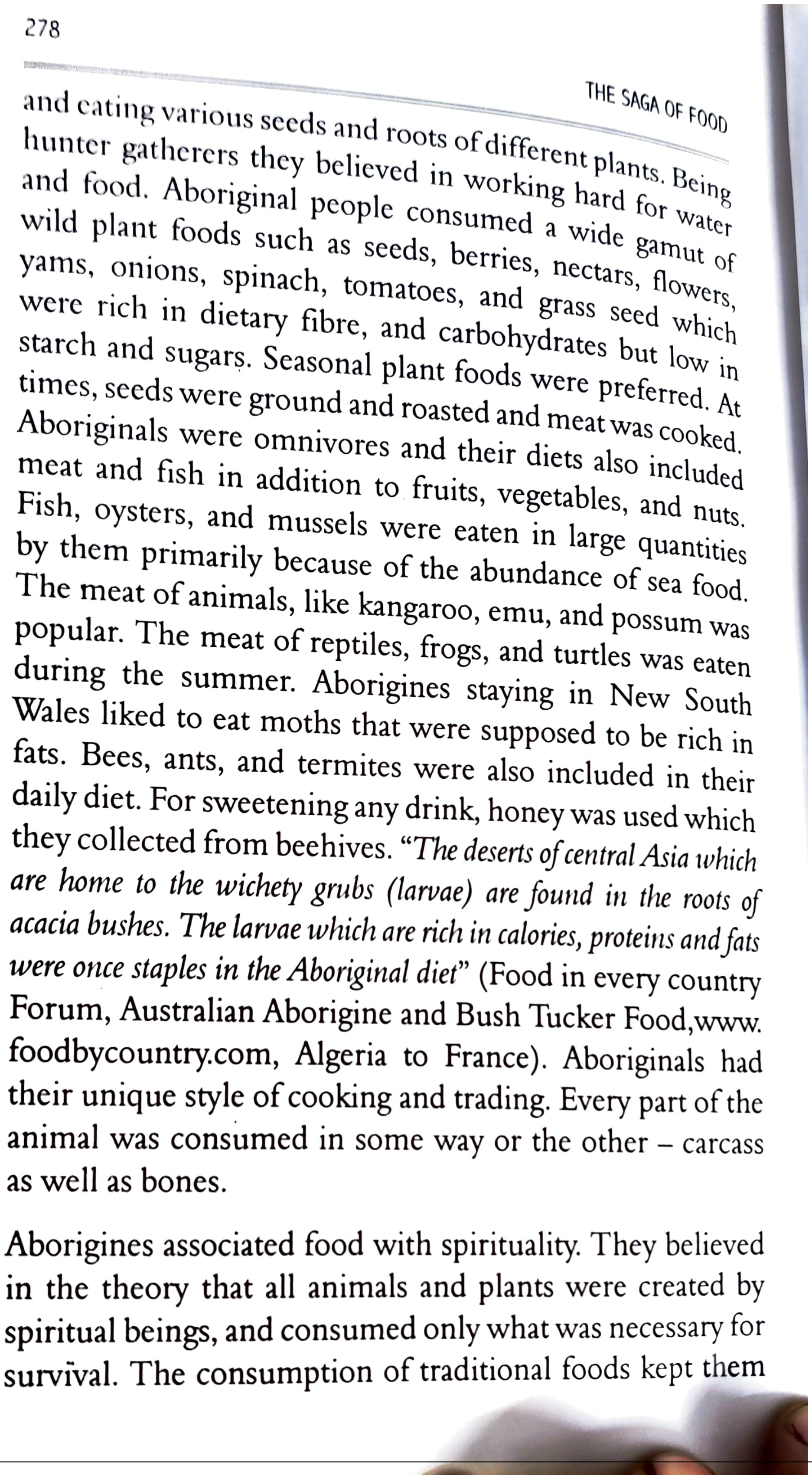
(1985), *Wandering Girl* (1987), *Don't Take Your Love To Town* (1988), *Me and You* (1989), *Somebody Now* (1989), *Ingelba and the Five Black Matriarchs* (1990), *Caprice: A Stockman's Daughter* (1991), *No Regrets* (1992), *When the Pelican Laughed* (1992) and *Over My Tracks* (1993).

The life writing of Australian Aboriginal writers is an invaluable input to the literature of Australia. It is obvious that these narratives are motivated by the desire to share the experiences of Australian Aboriginals with the Eurocentric white society. Such literature was the voice of the marginalized people seeking social justice. These autobiographies discard the representation of a fixed aboriginal culture originating from purist notions. Thus these autobiographies are an attempt to restore indigenous identity. In the autobiographies of the Aboriginal women, there is a common thread; women are involved in home-making activities and discuss their traditional foods and clothing, and share health remedies. The food that Aboriginal people were forced to eat on the Moore River mission which was an Aboriginal settlement and internment camp, and where meals were provided by the mission kitchens, was 'disgusting'. *When the Pelican Laughed* (1992), shows Alice Nannup's links with the traditional way of life. She says, "*For the soup they'd cook up these awful sheep heads. First, they'd skin them, but never take the eyes out, then they'd split them down the middle, give them a quick rinse and throw them in the copper*" (Nannup, p. 64). This disgusting food, Nannup says, was a tactic "*to deliberately lower us; well, degrade us really*" (Ibid.). She asserts with pride, "*I wasn't brought up like that. My mother was a beautiful cook and we ate lovely meals back home…*" (Ibid.).



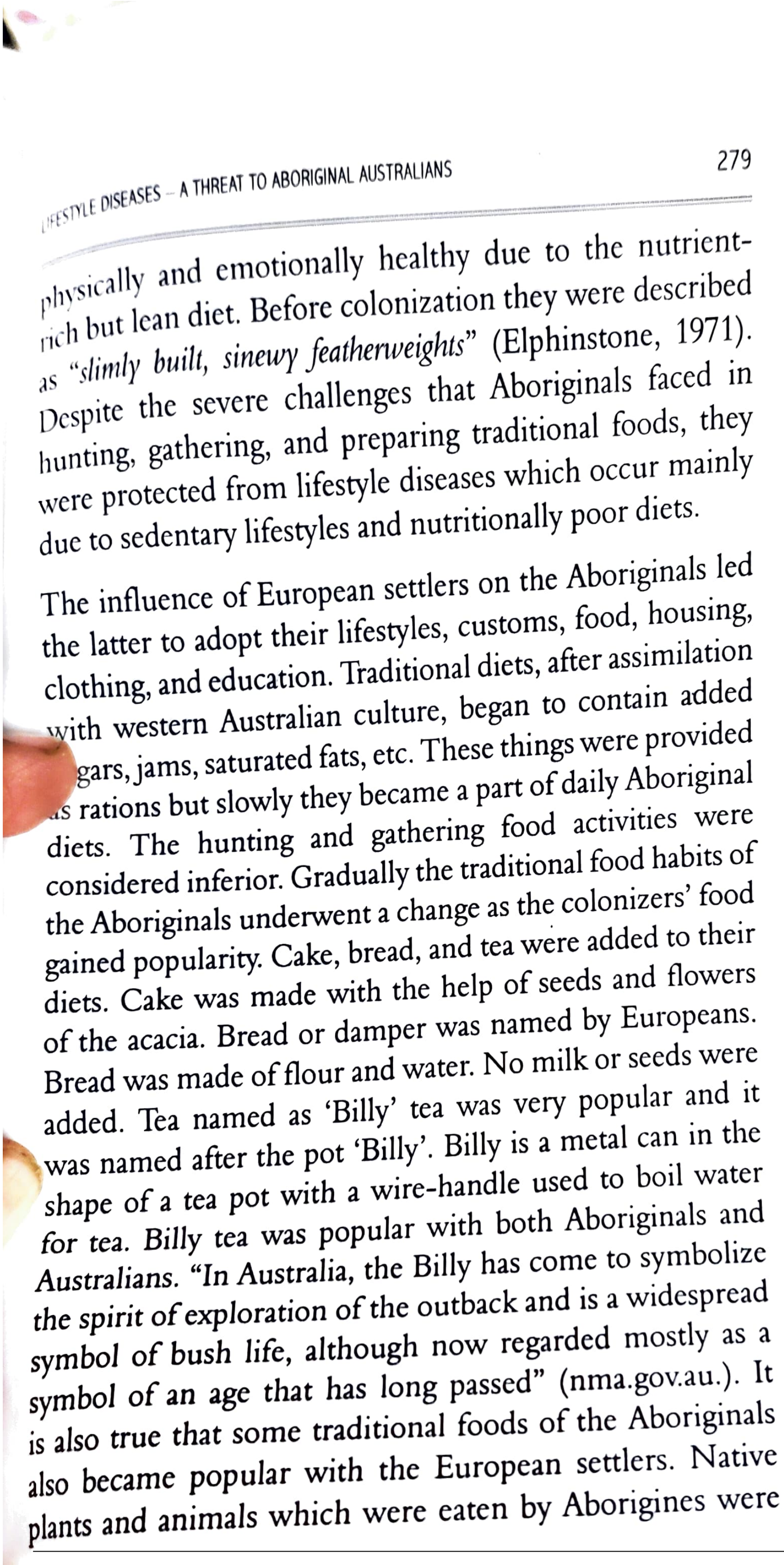
In Ruby Langford's *Don't Take Your Love to Town* (1988) we come to know that while living at St. George in the bush with Gordon Campbell for instance, Langford does not enjoy the benefits of the extended family network. "*I felt I was living tribal but with no tribe around me, no close-knit family. The food-gathering, the laws and songs were broken up, and my generation at this time wandered around as if we were tribal but fact living worse than the poorest of poor whites*" (Langford,). Aboriginal women suffered not only due to racism, atriarchy as well. In spite of the women working y hard, long-term relationships with men were rare. Their physical unions led to the birth of more children but unfortunately men indulged in drinking, gambling, and vanished completely from their lives. They were often left alone to deal with the rearing of children and making ends meet for their families.

Colonialism restricted the ability of the Aboriginals to move freely in their land. The cutting down of forests by Europeans deprived the Aboriginals from their food and game that were vital for their survival. Survival was primarily dependent upon a knowledge of the life-cycle of indigenous flora and fauna. Evidence indicates that aboriginals had excellent understanding of the environment. The Aboriginals were forcibly driven into inhospitable terrain that did not provide them conditions fit to survive on natural resources. (Report of National Inquiry ATSI, April 1997). Their traditional sources of food that they had found mainly as hunter gatherers were gradually lost to them. Tribal diet and hunting techniques varied according to the region and had been dependent on seasons. Prior to colonization, the aboriginals had preferred hunting animals



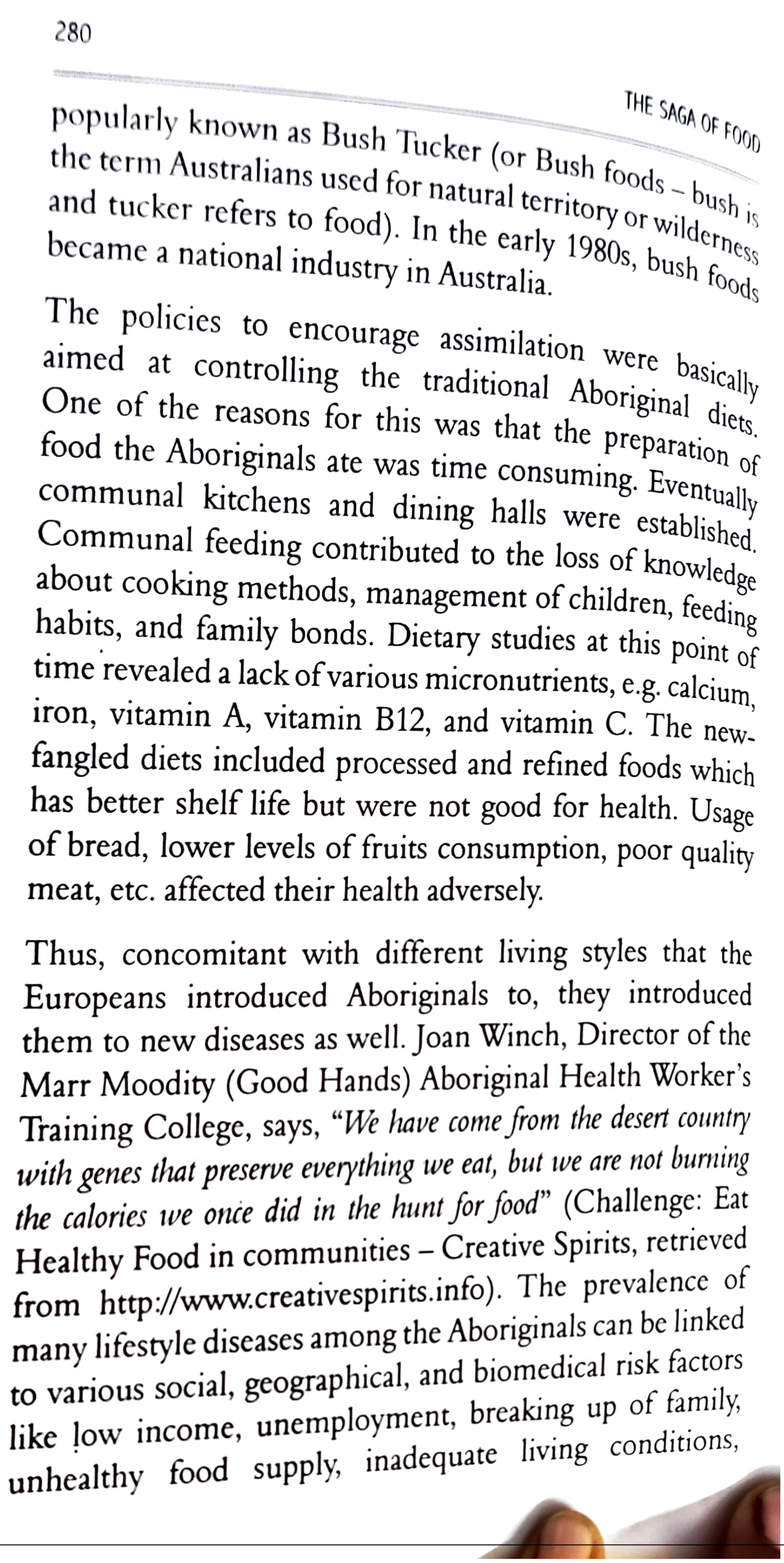
and eating various seeds and roots of different plants. Being hunter gatherers they believed in working hard for water and food. Aboriginal people consumed a wide gamut of wild plant foods such as seeds, berries, nectars, flowers, yams, onions, spinach, tomatoes, and grass seed which were rich in dietary fibre, and carbohydrates but low in starch and sugars. Seasonal plant foods were preferred. At times, seeds were ground and roasted and meat was cooked. Aboriginals were omnivores and their diets also included meat and fish in addition to fruits, vegetables, and nuts. Fish, oysters, and mussels were eaten in large quantities by them primarily because of the abundance of sea food. The meat of animals, like kangaroo, emu, and possum was popular. The meat of reptiles, frogs, and turtles was eaten during the summer. Aborigines staying in New South Wales liked to eat moths that were supposed to be rich in fats. Bees, ants, and termites were also included in their daily diet. For sweetening any drink, honey was used which they collected from beehives. "*The deserts of central Asia which are home to the wichety grubs (larvae) are found in the roots of acacia bushes. The larvae which are rich in calories, proteins and fats were once staples in the Aboriginal diet*" (Food in every country Forum, Australian Aborigine and Bush Tucker Food,www.foodbycountry.com, Algeria to France). Aboriginals had their unique style of cooking and trading. Every part of the animal was consumed in some way or the other – carcass as well as bones.

Aborigines associated food with spirituality. They believed in the theory that all animals and plants were created by spiritual beings, and consumed only what was necessary for survival. The consumption of traditional foods kept them



physically and emotionally healthy due to the nutrient-rich but lean diet. Before colonization they were described as *"slimly built, sinewy featherweights"* (Elphinstone, 1971). Despite the severe challenges that Aboriginals faced in hunting, gathering, and preparing traditional foods, they were protected from lifestyle diseases which occur mainly due to sedentary lifestyles and nutritionally poor diets.

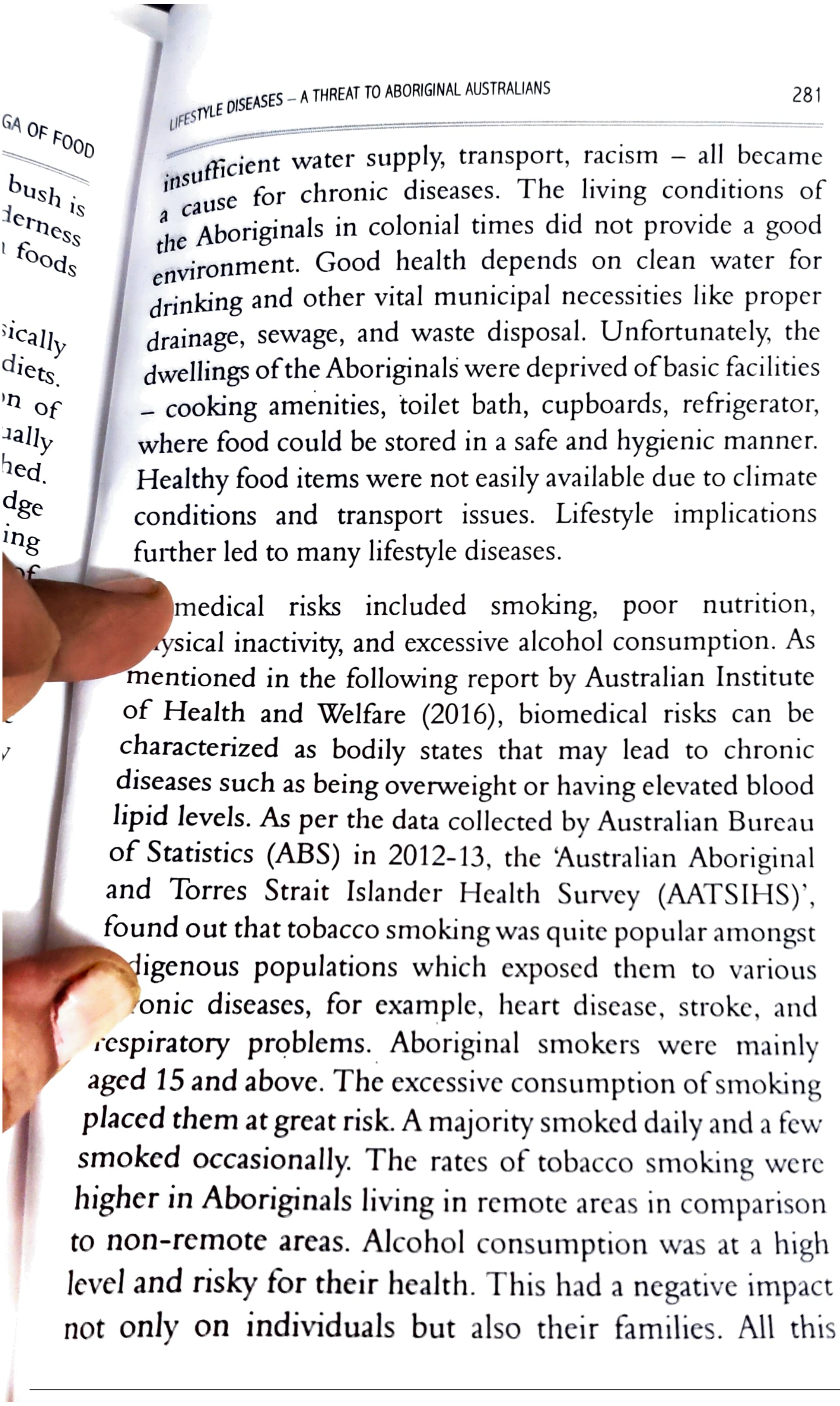
The influence of European settlers on the Aboriginals led the latter to adopt their lifestyles, customs, food, housing, clothing, and education. Traditional diets, after assimilation with western Australian culture, began to contain added gars, jams, saturated fats, etc. These things were provided as rations but slowly they became a part of daily Aboriginal diets. The hunting and gathering food activities were considered inferior. Gradually the traditional food habits of the Aboriginals underwent a change as the colonizers' food gained popularity. Cake, bread, and tea were added to their diets. Cake was made with the help of seeds and flowers of the acacia. Bread or damper was named by Europeans. Bread was made of flour and water. No milk or seeds were added. Tea named as 'Billy' tea was very popular and it was named after the pot 'Billy'. Billy is a metal can in the shape of a tea pot with a wire-handle used to boil water for tea. Billy tea was popular with both Aboriginals and Australians. *"In Australia, the Billy has come to symbolize the spirit of exploration of the outback and is a widespread symbol of bush life, although now regarded mostly as a symbol of an age that has long passed"* (nma.gov.au.). It is also true that some traditional foods of the Aboriginals also became popular with the European settlers. Native plants and animals which were eaten by Aborigines were



popularly known as Bush Tucker (or Bush foods – bush is the term Australians used for natural territory or wilderness and tucker refers to food). In the early 1980s, bush foods became a national industry in Australia.

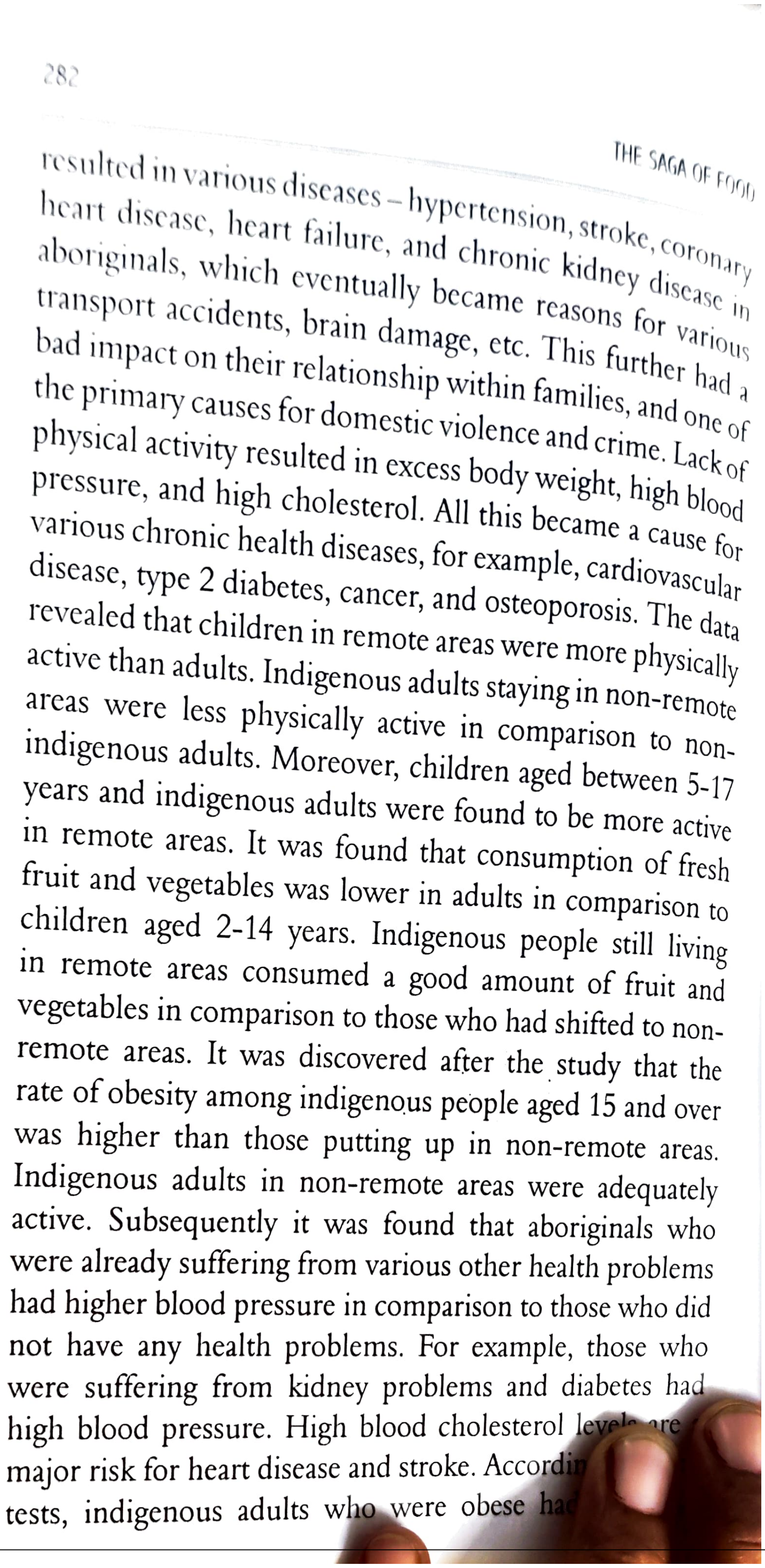
The policies to encourage assimilation were basically aimed at controlling the traditional Aboriginal diets. One of the reasons for this was that the preparation of food the Aboriginals ate was time consuming. Eventually communal kitchens and dining halls were established. Communal feeding contributed to the loss of knowledge about cooking methods, management of children, feeding habits, and family bonds. Dietary studies at this point of time revealed a lack of various micronutrients, e.g. calcium, iron, vitamin A, vitamin B12, and vitamin C. The new-fangled diets included processed and refined foods which has better shelf life but were not good for health. Usage of bread, lower levels of fruits consumption, poor quality meat, etc. affected their health adversely.

Thus, concomitant with different living styles that the Europeans introduced Aboriginals to, they introduced them to new diseases as well. Joan Winch, Director of the Marr Moodity (Good Hands) Aboriginal Health Worker's Training College, says, "*We have come from the desert country with genes that preserve everything we eat, but we are not burning the calories we once did in the hunt for food*" (Challenge: Eat Healthy Food in communities – Creative Spirits, retrieved from http://www.creativespirits.info). The prevalence of many lifestyle diseases among the Aboriginals can be linked to various social, geographical, and biomedical risk factors like low income, unemployment, breaking up of family, unhealthy food supply, inadequate living conditions,

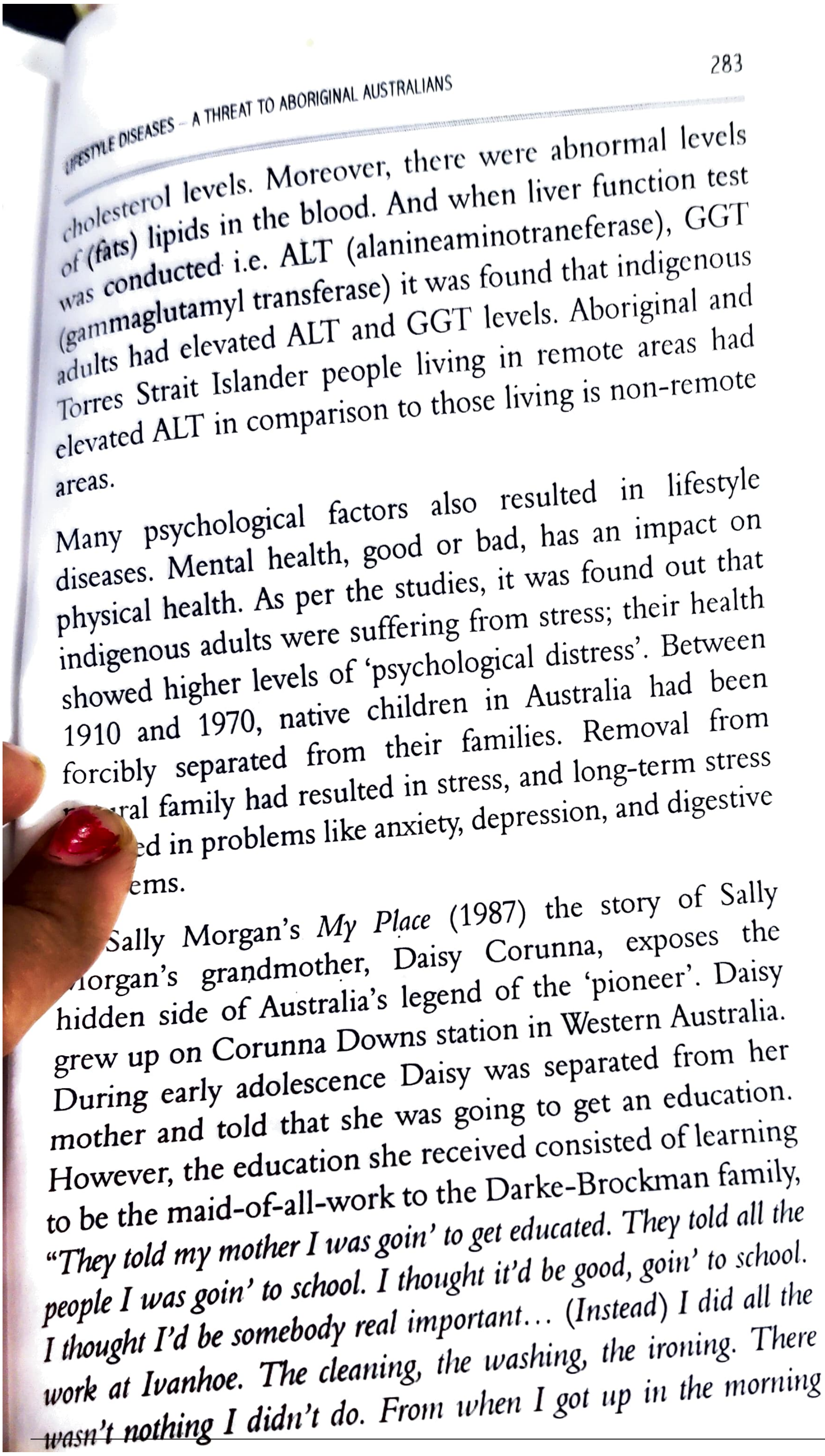


insufficient water supply, transport, racism – all became a cause for chronic diseases. The living conditions of the Aboriginals in colonial times did not provide a good environment. Good health depends on clean water for drinking and other vital municipal necessities like proper drainage, sewage, and waste disposal. Unfortunately, the dwellings of the Aboriginals were deprived of basic facilities – cooking amenities, toilet bath, cupboards, refrigerator, where food could be stored in a safe and hygienic manner. Healthy food items were not easily available due to climate conditions and transport issues. Lifestyle implications further led to many lifestyle diseases.

medical risks included smoking, poor nutrition, ysical inactivity, and excessive alcohol consumption. As mentioned in the following report by Australian Institute of Health and Welfare (2016), biomedical risks can be characterized as bodily states that may lead to chronic diseases such as being overweight or having elevated blood lipid levels. As per the data collected by Australian Bureau of Statistics (ABS) in 2012-13, the 'Australian Aboriginal and Torres Strait Islander Health Survey (AATSIHS)', found out that tobacco smoking was quite popular amongst digenous populations which exposed them to various onic diseases, for example, heart disease, stroke, and respiratory problems. Aboriginal smokers were mainly aged 15 and above. The excessive consumption of smoking placed them at great risk. A majority smoked daily and a few smoked occasionally. The rates of tobacco smoking were higher in Aboriginals living in remote areas in comparison to non-remote areas. Alcohol consumption was at a high level and risky for their health. This had a negative impact not only on individuals but also their families. All this



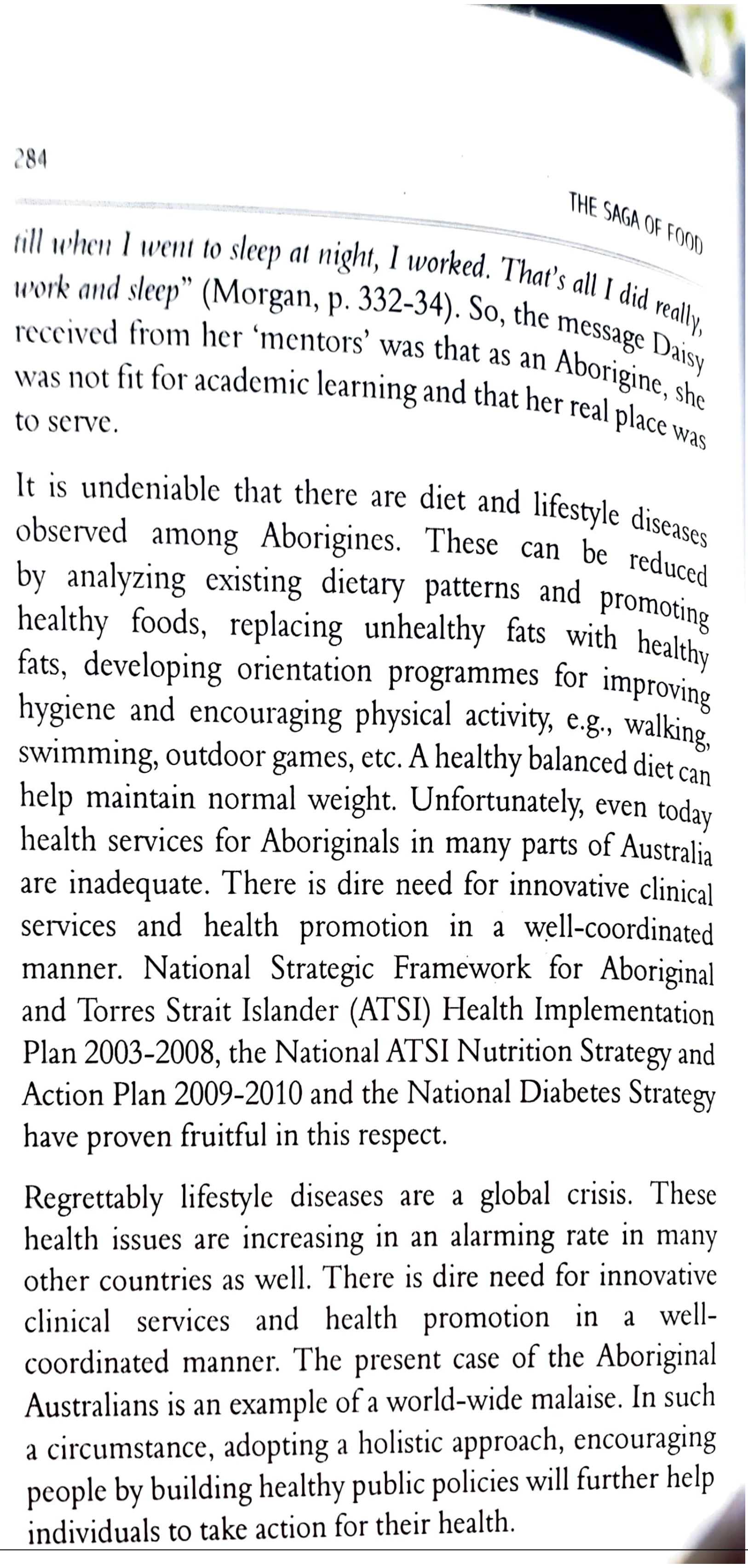
resulted in various diseases – hypertension, stroke, coronary heart disease, heart failure, and chronic kidney disease in aboriginals, which eventually became reasons for various transport accidents, brain damage, etc. This further had a bad impact on their relationship within families, and one of the primary causes for domestic violence and crime. Lack of physical activity resulted in excess body weight, high blood pressure, and high cholesterol. All this became a cause for various chronic health diseases, for example, cardiovascular disease, type 2 diabetes, cancer, and osteoporosis. The data revealed that children in remote areas were more physically active than adults. Indigenous adults staying in non-remote areas were less physically active in comparison to non-indigenous adults. Moreover, children aged between 5-17 years and indigenous adults were found to be more active in remote areas. It was found that consumption of fresh fruit and vegetables was lower in adults in comparison to children aged 2-14 years. Indigenous people still living in remote areas consumed a good amount of fruit and vegetables in comparison to those who had shifted to non-remote areas. It was discovered after the study that the rate of obesity among indigenous people aged 15 and over was higher than those putting up in non-remote areas. Indigenous adults in non-remote areas were adequately active. Subsequently it was found that aboriginals who were already suffering from various other health problems had higher blood pressure in comparison to those who did not have any health problems. For example, those who were suffering from kidney problems and diabetes had high blood pressure. High blood cholesterol levels are major risk for heart disease and stroke. Accordin tests, indigenous adults who were obese ha



cholesterol levels. Moreover, there were abnormal levels of (fats) lipids in the blood. And when liver function test was conducted i.e. ALT (alanineaminotraneferase), GGT (gammaglutamyl transferase) it was found that indigenous adults had elevated ALT and GGT levels. Aboriginal and Torres Strait Islander people living in remote areas had elevated ALT in comparison to those living is non-remote areas.

Many psychological factors also resulted in lifestyle diseases. Mental health, good or bad, has an impact on physical health. As per the studies, it was found out that indigenous adults were suffering from stress; their health showed higher levels of 'psychological distress'. Between 1910 and 1970, native children in Australia had been forcibly separated from their families. Removal from ral family had resulted in stress, and long-term stress ed in problems like anxiety, depression, and digestive ems.

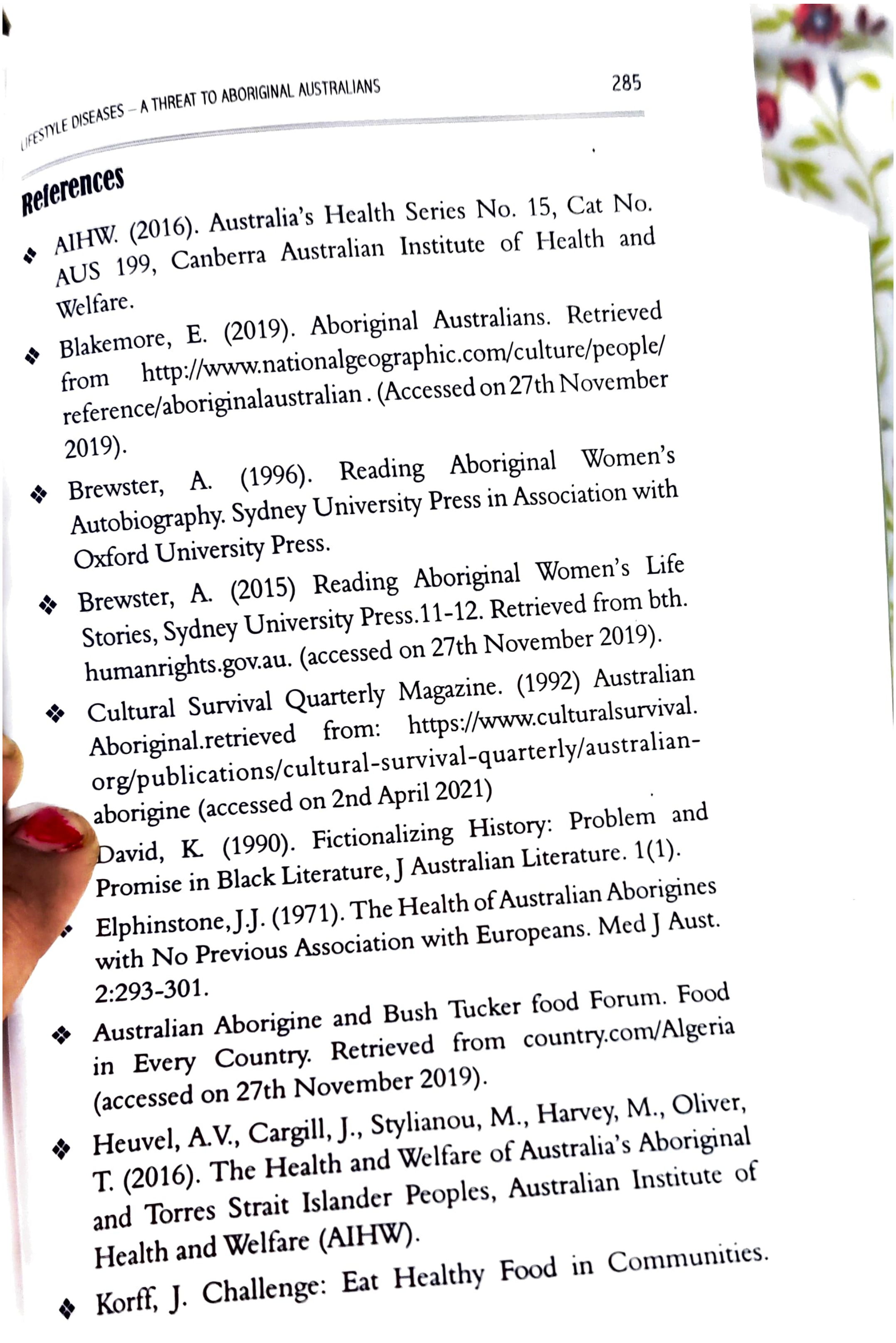
Sally Morgan's *My Place* (1987) the story of Sally Morgan's grandmother, Daisy Corunna, exposes the hidden side of Australia's legend of the 'pioneer'. Daisy grew up on Corunna Downs station in Western Australia. During early adolescence Daisy was separated from her mother and told that she was going to get an education. However, the education she received consisted of learning to be the maid-of-all-work to the Darke-Brockman family, *"They told my mother I was goin' to get educated. They told all the people I was goin' to school. I thought it'd be good, goin' to school. I thought I'd be somebody real important…* (Instead) *I did all the work at Ivanhoe. The cleaning, the washing, the ironing. There wasn't nothing I didn't do. From when I got up in the morning*



till when I went to sleep at night, I worked. That's all I did really, work and sleep" (Morgan, p. 332-34). So, the message Daisy received from her 'mentors' was that as an Aborigine, she was not fit for academic learning and that her real place was to serve.

It is undeniable that there are diet and lifestyle diseases observed among Aborigines. These can be reduced by analyzing existing dietary patterns and promoting healthy foods, replacing unhealthy fats with healthy fats, developing orientation programmes for improving hygiene and encouraging physical activity, e.g., walking, swimming, outdoor games, etc. A healthy balanced diet can help maintain normal weight. Unfortunately, even today health services for Aboriginals in many parts of Australia are inadequate. There is dire need for innovative clinical services and health promotion in a well-coordinated manner. National Strategic Framework for Aboriginal and Torres Strait Islander (ATSI) Health Implementation Plan 2003-2008, the National ATSI Nutrition Strategy and Action Plan 2009-2010 and the National Diabetes Strategy have proven fruitful in this respect.

Regrettably lifestyle diseases are a global crisis. These health issues are increasing in an alarming rate in many other countries as well. There is dire need for innovative clinical services and health promotion in a well-coordinated manner. The present case of the Aboriginal Australians is an example of a world-wide malaise. In such a circumstance, adopting a holistic approach, encouraging people by building healthy public policies will further help individuals to take action for their health.



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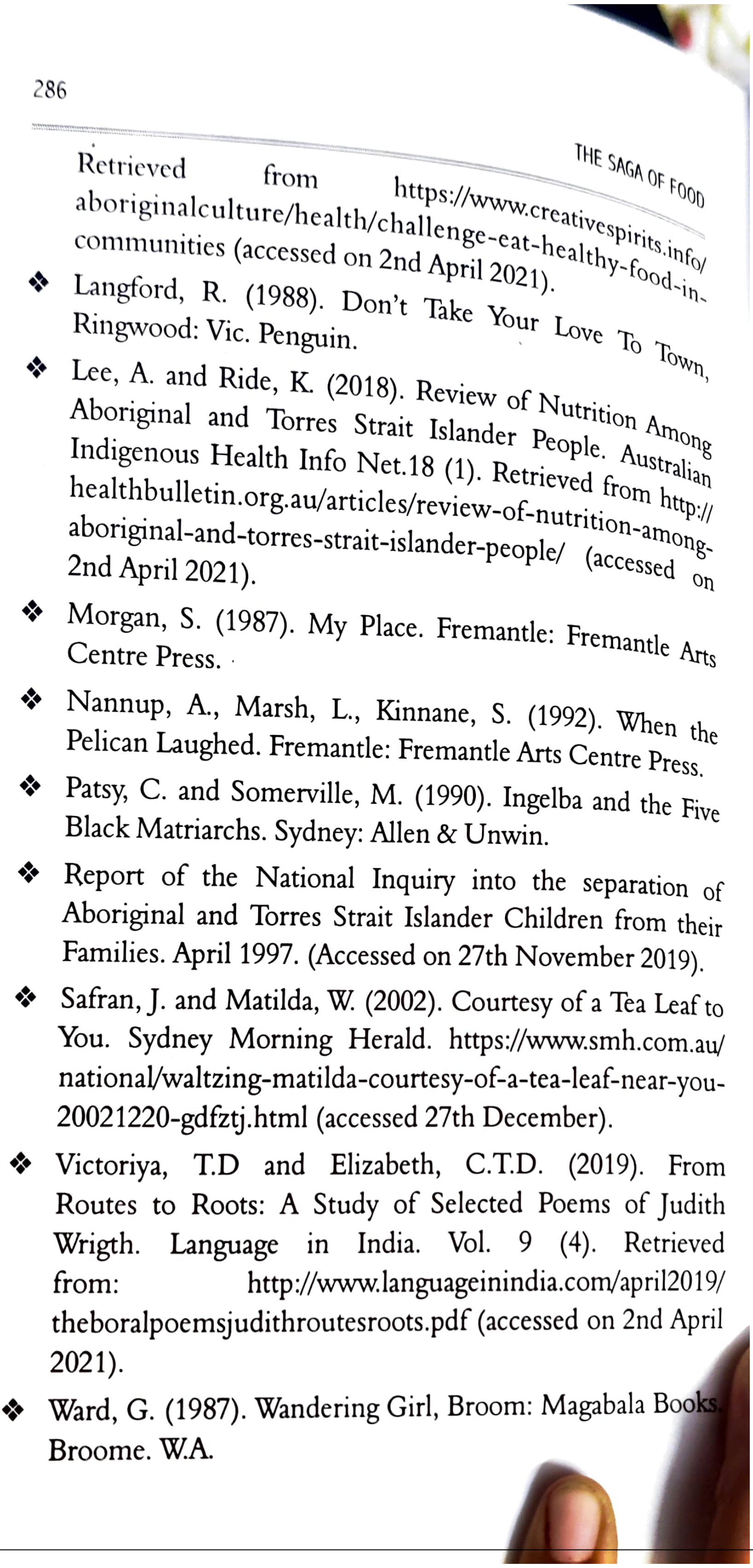

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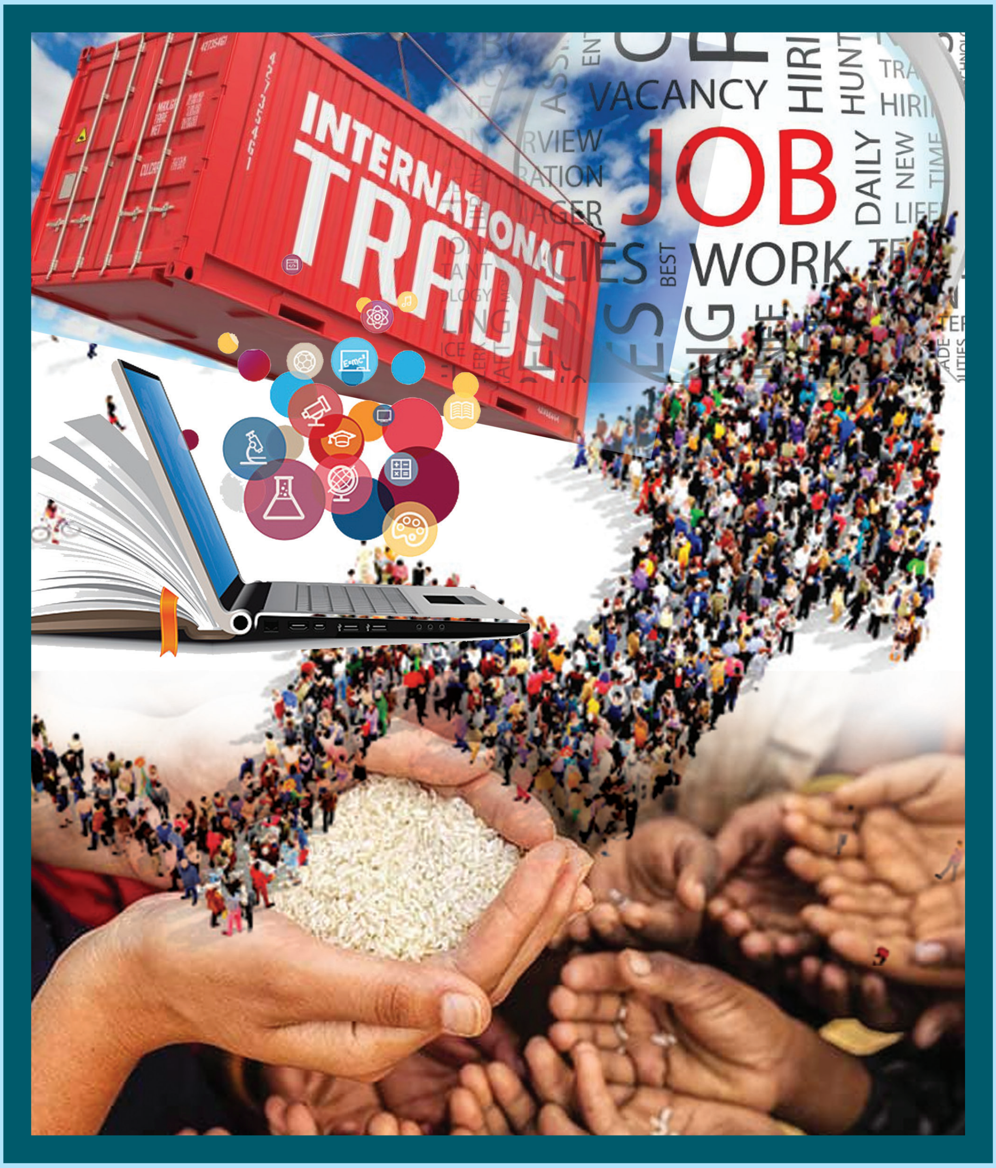
Indian Economy I



BECE 145

INDIAN ECONOMY - I

School of Social Sciences
Indira Gandhi National Open University

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COURSE PREPARATION TEAM

Block 1	**Economic Development since Independence**	
Unit 1	Economy at the Time of Independence	Ms. Vishakha Goyal, Asst. Professor, Delhi University.
Unit 2	Development Paradigms	Prof. Sebak Jana, Vidyasagar University.
Unit 3	Structural Changes	Dr. Asim Karmakar, Jadavpur University; Prof. B. S. Prakash. SOSS, IGNOU.
Unit 4	Resources and Constraints	Prof. Sebak Jana, Vidyasagar University.
Block 2	**Population and Human Development**	
Unit 5	Demographic Features	Prof. Sumanash Dutta, Assam University.
Unit 6	Education Sector	Prof. Sebak Jana, Vidyasagar University.
Unit 7	Health and Nutrition	Dr. Smritikana Ghosh, Asst. Professor, Scottish College, Kolkata.
Block 3	**Growth and Distribution**	
Unit 8	Poverty	Dr. Smritikana Ghosh, Asst. Professor, Scottish College, Kolkata.
Unit 9	Inequality	Dr. Smritikana Ghosh, Asst. Professor, Scottish College, Kolkata.
Unit 10	Employment and Unemployment	Prof. B. S. Prakash, SOSS, IGNOU; Dr. Asim Karmakar, Jadavpur University.
Block 4	**International Comparisons**	
Unit 11	Growth and Structural Changes	Dr. Asim Karmakar, Jadavpur University.
Unit 12	Social and Economic Development	Prof. D. N. Reddy, Osmania University.
Unit 13	Trade and Balance of Payment	Ms. Vishakha Goyal, Asst. Professor, Delhi University.
Unit 14	Governance and Institutions	Prof. D. N. Reddy, Osmania University.

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Contents

COURSE INTRODUCTION

The first block (**Block 1**) is on ‘Economic Development Since Independence’. It is important to begin by knowing the state of the economy that we inherited at the time of our independence. **Unit 1** gives an account of the ‘Economy at the Time of Independence’. You may be aware that there are different theories suggesting alternative approaches to development. To familiarise you with these, **Unit 2** deals with ‘Development Paradigms’. The base of the economy in terms of rural-urban distributions, proportion of workers engaged in primary/secondary/tertiary sectors of the economy, and contribution to GDP by the three sectors, have undergone significant shifts over the last seven decades (1950-2020). An account of this is given in **Unit 3** on ‘Structural Changes’. **Unit 4** apprises you on the resource base of the Indian economy in terms of ‘Resources and Constraints’.

During the period since Independence, the Indian economy has progressed in terms of its human development characteristics. To cover the strides made in this respect, **Block 2** deals with the theme of ‘Population and Human Development’. The block covers three major areas viz. Demographic Features (**Unit 5**), Education Sector (**Unit 6**) and Health and Nutrition (**Unit 7**). In spite of the concerted efforts at planned development, the benefits of growth would not evenly reach the different sections of society. Keeping this in view, **Block 3** focuses on the theme ‘Growth and Distribution’. It covers three important areas viz. Poverty (**Unit 8**), Inequality (**Unit 9**) and Employment and Unemployment (**Unit 10**).

It is important to know how our development trajectory compares with those of other economies both in the Asian region and outside. With this perspective in mind, **Block 4** focuses on ‘International Comparisons’. This is covered over four important areas viz. Growth and Structural Changes (**Unit 11**), Social and Economic Development (**Unit 12**), Trade and Balance of Payments (**Unit 13**) and Governance and Institutions (**Unit 14**).

Our endeavour has been to keep the content of the course centred around ‘concepts and methods’. This is done with a view to making the contents ‘time invariant’ as far as possible. Statistical data, wherever presented, are meant to give you an exposure to the ‘computational aspects of data analysis’. For instance, growth is an important dimension of development while ‘poverty and inequality’ reflects the distribution of the developmental outcome. Nature and extent of employment and unemployment are another important macro dimensions of development. Assessment of achievements and shortfalls on such dimensions need analytical indicators. Computation of such indicators require data. Data are published with differing periodicity and become available with a time lag. Further, data published for previous years often get revised. These factors make the computed indicators sensitive to the periods for which they are computed. In other words, with more recent data becoming available, variations in their values are to be expected.

Keeping the above in view, the course gives exposure to standard ‘data sources’. One such source is the Economic Survey. This is an annual publication (uploaded online) released just before the presentation of the ‘union budget’. It draws on data published by different sources with variation in their time reference. For instance, population census has a decadal periodicity while the surveys of NSSO are in a 5-year periodicity. This means even in the Economic Survey of 2020, you would find data on certain aspects which pertain to a much earlier time point. The latest data that you can expect is on national income (i.e. output) that too for the past year 2019. Students should therefore remember that the data used in the units of this course are for illustrative purpose. They are advised to attempt fresh computations drawing from the data in Economic Surveys. This will help you to remain abreast with the latest trends in the ‘growth and distribution’ profiles of the Indian economy.

You should note that the more historical the data, greater are its nature of stability. The more recent is the data, greater are the chances of its being changed or revised. To put this in perspective, growth of economy over 1951-2000 is not likely to change even in 2050 but that of 2001-2020 would invariably be revised in the next few years. This underscores the caution that needs to be exercised on latest data.

BLOCK 1

ECONOMIC DEVELOPMENT SINCE INDEPENDENCE

BLOCK INTRODUCTION

Block 1: Economic Development Since Independence

Block 1 of this course is on ‘Economic Development Since Independence’. It presents a picture of the Indian economy as we inherited it and the successive stage of development through which the economy has passed through over the decades. Various aspects of development are covered under ‘4 units’ each devoted to a ‘different theme’ as follows.

Unit 1 is on ‘**Economy at the Time of Independence**’. It discusses the status of the economy at the time of independence in terms of three broad sectors viz. agriculture, industry and currency & finance. A second aspect on which the unit focuses is on the ‘state of infrastructure’. Under this, the unit discusses the state of the economy at the time of independence in terms of social, economic and administrative infrastructural status.

Unit 2 is on ‘**Development Paradigms**’. It begins with an outline on the different ‘approaches to development’. Distinction between approaches like market based approach, state led approach, inclusive growth approach and sustainable development approach are given. A differentiation between the broad two economic systems viz. capitalism and socialism, is also given. The two phases of development as prevailed during the first few decades of developmental planning i.e. the public sector dominant phase (phase I) and the phase with an increased role for markets (phase II) are discussed. Factors that have gone into the consideration of integrating the Indian economy with that of the global economy are explained.

Unit 3 is on ‘**Structural Changes**’. The unit discusses the changes over the decades in the growth of national Income, savings, investment, employment and urbanisation. Changes over time in ‘regional disparities’ and ICOR (incremental capital output ratio) are also discussed.

Unit 4 is on ‘**Resources and Constraints**’. The unit provides a distinction between natural resources and man-made resources. A differentiation between physical infrastructure and social infrastructure is also given. Issues like role of infrastructure in development, infrastructural development in India and significance of ‘institutions and governance’ are explained in the unit.

UNIT 1 ECONOMY AT THE TIME OF INDEPENDENCE[*]

Structure

1.0 OBJECTIVES

After reading this unit, you will be able to:

- describe the state of Indian agriculture at the time of independence;
- state the problems faced by the Indian agricultural sector at the time of independence;
- outline the state of Indian industry at the time of independence;
- indicate the state of 'currency and financial sector' at the time of independence;
- explain the state of 'infrastructure' in India at the time of independence; and
- provide an account of 'macro aggregates' at the time of independence.

1.1 INTRODUCTION

Before the British rule, India was an independent economy. It had large exports and accepted gold and precious/semi-precious stones in exchange. Its dependency on imports was minimal. The economy was largely rural but was independent and self sustained. Kings provided patronage to artists, sculptors and weavers. Modes of transportation were limited. Hence, trade too was limited but every region had its own specialisation.

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[*] Ms. Vishakha Goyal, Asst. Professor, Delhi University.

During the British rule, there was a drain of wealth from India. Most of the present day problems of Indian economy have its roots to the policies of British rule. In this unit, we will examine the features of Indian Economy as it prevailed (or as it came to exist) at the time of its independence in 1947. Such a review will help us appreciate the magnitude of effort involved to eradicate most of our present day problems like poverty, unemployment, healthcare, etc.

1.2 ECONOMY AT THE TIME OF INDEPENDENCE

On the eve of independence, Indian economy was underdeveloped. Low per capita income and low national income were the reasons behind widespread poverty. The distribution of national income was not equitable and hence the gap between the wealthy and poor was high. A handful of rich persons, who were serving in the British government or owned some industry, were enjoying relatively larger share of the national income while the majority of the poor was getting the relatively smaller share of it. Inequalities of income distribution were observed both in the rural and urban sectors of the economy. Most of the population was dependent on agriculture for occupation. Very few industries, largely producing consumer goods, were there. Basic and key industries were very less in number. Even though during World Wars I and II, India supplied different warfare and consumer goods, due to lack of real technological development and shortage of capital, Indian industry did not develop much during the post World War years. Production of machinery in the country was negligible. The only capital industry was of steel which could produce about 9 lakh tones. The country possessed abundant stock of natural resources but these resources were either underutilised or unutilised. This resulted in widespread unemployment, poverty and hunger. Frequent famine and drought were common which caused shortage of food and starvation. The vicious circle of poverty continued year after year. About 40 percent of population was living below poverty line. Such rampant poverty led to low standard of living and low human development. The growth of the Indian economy was so low that it was considered as ‘stagnant’. The biggest fight for common man was of hunger and widespread diseases. Health, education and other developmental parameters were all very low. Let us examine, sector-wise, the economic features of Indian economy in more detail.

1.2.1 Agriculture

Agriculture was the main sector of Indian economy. At the time of independence, about 85 percent of population was dependent on agriculture for their livelihood. But the contribution of agriculture to national income was about 50 percent. Net sown area, estimated at about 127 million hectares, formed about 43.6 percent of the total reported land area of the country. Food crops were cultivated on three-fourth of the total cultivated land while one-fourth was used for cultivation of cash crops. Important food crops produced were wheat, rice, millets. Sugarcane, cotton and jute were three important cash crops. India accounted for about 32 percent of world's total production of groundnuts, 41 percent of jute and 27 percent of rice. India was the largest producer of groundnuts and sugarcane. It was the third largest producer of cotton next to USA and China in the world. Still the output, if calculated per hectare of cultivation, it was among one of the lowest in the world. During the British rule, due to lack of support for different occupations like artisans and craftsmen, all had to depend on agriculture for their livelihood.

The British followed different practices of land revenue system in different states of India. Farmers were supposed to provide high land revenue but the government did nothing to maintain or improve the fertility of land or to provide irrigation facilities to increase the yield. There were three different land revenue systems viz. the Zamindari system (which covered 58 percent of the total land), Ryotwari system (which covered 38 percent of land) and Mahalwari system (which was implemented in 4 percent area). In the latter two systems of land revenue, some development was undertaken to revive the fertility of agriculture but in the zamindari system, the zamindars were only concerned with the collection of land revenue. The zamindars used to extort as much rent as they could from the cultivators leaving no surplus with them. This resulted in no incentive for the cultivator for making fresh investment in their farms. Although a canal network had been laid down by the government, it was grossly inadequate with only 17 percent of the area under cultivation getting the benefit of irrigation. In few states like Punjab, canal irrigation system was initiated but in most of the other states/areas, there was no initiative in this direction. This neglect was one of the major reasons for the backwardness of Indian agriculture. As the contribution of agriculture sector was around 50 percent to GDP, sources of irrigation were an important infrastructure to have been focused upon. Extension of cultivation could also be promoted only with increased sources of irrigation. But the sources of irrigation were only limited to some states.

On the markets front, formal/orderly markets for agricultural produce did not exist. As a result, agricultural intermediaries took most of the benefits. The road connectivity from farm to markets was totally lacking. For credit requirements, in the absence of any organised credit system, small farmers depended upon indigenous bankers. The money lenders/indigenous bankers charged heavy interest rate. Often, farmers had to lose their land for non-payment of interest and principal. The system of joint families widely prevailed. Hence, whenever anyone got unemployed, they used to join the family agriculture. This used to create disguised unemployment. Hence, on the eve of independence, Indian agriculture was characterised by problems like:

a) Low Output Per Hectare: Income of the farmers was less and land revenue was comparatively high. So, farmers were not in a position to make investment in their farms. Government did not take required measures to improve soil health, establish sources of irrigation and promote innovation in agricultural methods. Even age old techniques like slash and burn technique which were known to restore soil health were also out of practice. More land was required to increase farm income. But farmers could not lease any land even for some months.

b) Primitive Techniques of Production: The use of iron tools in agriculture replaced the primitive wooden plough and other tools. But this was the only technological up-gradation in agriculture during the British rule. Agriculture was predominately dependent on monsoon for irrigation, though during early 1940s, expansion of wells and canals had started. Four regions (Punjab, Madras, Western U.P and Sind) could start using their wasteland into agriculture due to development of irrigation. At the time of independence, irrigation facilities were missing in most parts of the country. Canal irrigated areas of Punjab and Sindh had gone to Pakistan.

c) Lack of Commercialisation of Agriculture: During the British period, the tradition to produce commercial crops like sugarcane, cotton, jute, opium, etc. had just begun. This trend in commercialisation of agriculture somewhat supported its related industries like jute and cotton textile. However, at the time of independence, due to partition, most fertile area for Jute cultivation went to Eastern Pakistan.

1.2.2 Industry

Before the British rule, there were only few industries concentrated in some areas. There was no uniformity in production. For instance, mining was there even before the British but it did not employ many workers. The major industry was cotton textiles but even this had high regional variation. Nevertheless, for the state of industry as the country inherited at the time of independence, a certain thrust to shape the Indian industry had been given. This was main visible in areas like tea, coffee plantation and sugar mills. Before the British rule, exports from India were in surplus. But during their rule, beginning with the second half of nineteenth century, though machines had been introduced to increase production, Indian goods faced strict competition with cheaper machine made imported goods. Though natural resources were present in abundance, mining under the British experienced low growth. Though railways required coal in high amount, in the initial years of railways, coal was imported from Britain. In the later years, extraction from domestic sources was begun.

Introduction of Railways (in 1853) gave new markets for expansion of Indian industries. By 1947, there were a total of 42 rail systems in India. Still, industrial development remained stagnant. Industries were confined to a limited range and concentrated in a few unevenly distributed areas. The beginning of World War I gave some impetus to Indian industry. The period upto 1905 had seen growth on modern cotton textile and jute industries. What are now Maharashtra and Gujarat had emerged as major centres for cotton textile industry in the country. Consumer goods industries like chemicals, cement, fertilisers, mineral acids, etc. also picked up during the early decades of 20th century. Later, the Second World War opened a new phase in India's industrial history. Industrial output of large scale industries expanded with some diversification. As a result, the general index of output of all large scale manufacturing rose from 100 to 161.6. Factory employment also increased from an index of 100 to 159. Yet, the process of industrialisation could not pick up due to lack of industrial base or capital industries. TISCO (Tata iron and steel company), which was established in the year 1905, was the only major capital industry of India till independence. The per-capita income of India was so low that the Indian economy did not have enough savings/investment to establish basic and capital industries. The technological backwardness of India also played its role in this. Even for the establishment of TISCO, engineers had to be called from Britain to lay down the foundation for the industry. A major setback to Indian industries resulted from partition. The cotton and jute textile industry suffered the most as they depended on agriculture for its raw material. Raw jute producing areas went to Pakistan but mills were located in India. Hence, after partition, these mills could not produce due to lack of raw material. At the time of partition, a total of 112 jute mills were operating in India. 85 percent of the total jute growing region went to eastern Pakistan (present day Bangladesh). A similar thing happened with cotton textile mills. Best cotton growing region became part of Pakistan (Sind and western Punjab). Therefore, on the eve of independence, the labour of these mills got unemployed which further increased poverty in newly independent India. In 1948-49, contribution of secondary sector was just 6.6 percent of the GDP. Employment in the industries was a mere 1.8 percent of total population (around 274 million in 1941 of which 60.2 percent were in the working age group of 15-59) of the country were working in the industry and that too consumer goods industries. This is the main reason for the high dependency of India on imports particularly for capital goods. Due to these factors, when India got freedom, its substantial trade deficit was one of the major challenges faced by the new government in India.

1.2.3 Currency and Financial sector

Before the British rule, different provinces of India had their own currencies. The concept of common currency was introduced by the British to facilitate trade and collection of land revenue. India was on a monometallic silver standard (i.e. only silver coins were in circulation) from 1835 to 1893. This means there was high demand for silver which increased the need for silver import and contributed to being one of the main reasons for India's high BOP (balance of payments) deficit. The extraordinary rise in the price of silver in February 1920 made it extremely difficult to maintain exchange stability. In the 19th century, the British introduced paper money in the subcontinent. The Paper Currency Act of 1861 gave the government the monopoly of note issued throughout the vast expanse of British India. At that time, the Indian rupee was linked to the British pound and its value was at par with the American dollar. This helped Indian domestic as well as foreign trade to develop.

The financial system consists of: (i) financial institution (non-banking and banking), (ii) financial markets (stock exchange), and (iii) instruments and services which help in mobilisation of savings and increase capital formation. Banking sector was visible with only few banks. As a result, banks were not easily accessible to the masses. Major source of lending were money lenders. Though the first bank in India was set up in 1786, the development of the sector was slow. Later on, three banks were established in three different presidencies (Bengal, Calcutta and Madras). The Companies Act (1913) contained a few sections relating to joint-stock banks but there was no special legislation for commercial banking. The amended Indian Companies Act of 1936 added many provisions relating to minimum capital, cash reserve requirements and other operating conditions. Still, there was no integrated statutory regulation of commercial banks in India till 1949. Reserve bank of India was established in the year 1935 as a private company. During World War II, the authority of the RBI (Reserve Bank of India) was extended to frame the monetary policy. But it was forced to pursue a government-initiated low interest rate policy to keep the cost of financing the war low and to expand money supply through accumulation of sterling (foreign exchange) balances. Between 1913 and 1948 there existed approximately 1100 small banks in India. For faster development of this sector, the government enacted the Banking Companies Act, 1949 which was later changed to Banking Regulation Act, 1949. Some cooperative banks were formed during early 20th century and later these too were regularised under the banking Act. Banking institutions were totally missing in the rural areas. To overcome this gap, NABARD (National Bank for Agricultural and Rural Development) was setup much later in 1982.

Stock exchanges are necessary to increase the capital formation in the country. In the pre-independence period, there were only three stock exchanges [Bombay Stock Exchange, 1877; Ahmadabad Stock Exchange, 1894; and Calcutta Stock Exchange, 1908] which were not regulated by the government. After independence, government of India took a number of measures to promote joint stock companies. There was an acute shortage of banks to serve common people. With such small banking system, mobilisation of savings was difficult which needed immediate attention for faster development of industrial sector.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What were the main features of Indian economy at the time of independence?

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2) At the time of independence, what was the extent of dependence on agriculture and what was its share of contribution to the economy?

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3) In the production of which crops India was leading the world at the time of independence?

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4) State the three areas in which the agricultural sector was suffering from at the time of India's independence.

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5) Which events contributed for the industrialisation in India to pick up in the first half of the 20th century?

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6) What was a major set back from which the Indian industry suffered around 1947?

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7) What was the extent of contribution of industry to the Indian economy at the time of independence? What was a consequence of this state on the Indian economy?

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8) What was a lacuna in the state of banking sector at the time of independence and which immediate measure was taken after independence to rectify this?

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1.3 STATE OF INFRASTRUCTURE

Though the British did develop some infrastructure, their motive was to facilitate foreign trade to England. Communication facilities were developed for better administrative reasons. During the first and second world wars, when India served Britain, air transport was developed.

The crucial basic infrastructure required for the development of domestic industries was missing. For instance, electricity is one of the basic infrastructures required for the development of any industry. But the power generation capacity in India was almost negligible. In the same way, road and port connectivity was developed but limited to the routes used for the movement of manufactured goods and raw materials from the source of their origin to the ports and from ports to major commercial centres. There were few other areas which were connected through railways for the quick movement of army. This encouraged export of raw materials and import of manufactured goods. The raw material could have been used for domestic production as well but infrastructure deficit was a major barrier for industrial development. In short, infrastructural deficit at the time of Independence became a major challenge for policy-makers in the post-independence era. Infrastructure can be divided into two groups: physical infrastructure and human infrastructure. Physical infrastructure includes roads, railways, airways, waterways, electricity generation, banking, insurance, modes of communication, etc. It is also termed as economic infrastructure as it makes a direct contribution in income generation. Another category of infrastructure is Human infrastructure or social infrastructure. This includes training and skill development of people so that they can contribute in the process of production. Though the effect of the development of social infrastructure on GDP is visible in the long run but it is very important for economic development.

1.3.1 Social Infrastructure

Social Infrastructure includes assets that aid social/human development. It includes schools, universities, hospitals, housing and others. Social infrastructure is required for human development. During the British rule, human development was not given priority. State of healthcare sector was bad with hospitals limited to big cities. Ancient health care system was also on decline. As a result, infant mortality, maternal mortality and death rate were all high. Life expectancy was just 32 years. Education sector was a little better but it was not accessible to all. Though the British started formal schools, it was limited to few cities. English education became one of the sources to get job in British administration. For higher education, only sixteen universities were serving the entire population which was 274 million in 1941. This means that for 17+ million people, there was just one university. This shows that education which is an important medium for human development was not sufficiently accessible to all. As a result, at the time of independence, literacy rate was as low as 16 percent among males and 7 percent among females.

1.3.2 Economic Infrastructure

Economic infrastructure supports production process and has a direct impact on GDP growth. It is also known as demand-inducing service. Examples of economic infrastructure include roads, airports, railways, communication networks, water supply, irrigation systems and electric power.

Until the mid-nineteenth century, the most popular mode of long-distance transportation of cargo was through navigable rivers. For short-distance trade and travel, the common means of transportation were bullock carts and small river craft. Such systems of transport for long-distance trade used much labour and time. With the introduction of railways, the shorter time taken in long distance travel attracted people towards railways. Railway construction began on a large scale in the 1850s. It continued, almost exclusively by the private sector (entrepreneurs of England) until 1870. In 1870, when government found the construction of railways a profitable business, Calcutta, Bombay, Madras and Delhi were interconnected by the 'broad-gauge' system. By 1920s, all railways in India were brought under government management. By then, the Indian railway system was one of the largest networks in the world. Railway construction stimulated the engineering industry in India. It also stimulated financial and labour markets. People could migrate to faraway places for jobs. These effects were weak till the time of world war-I. Railways were used to develop industries during both the world wars. The government had built railway workshops in India for repair and production of parts but they were not intensively used. Coal mining was started in India to fulfil the need of railways. The role of the railways as a major source of demand for the basic metal industries in India was thus significant.

Roads are the basic infrastructure required for the movement of raw-material and finished goods. Without proper roads, it is difficult to mobilise anything. Roads were a low priority area of colonial government investment as horses were used for army movement. Only such routes which were required for the movement of raw material to railways and ports were given importance. Road length grew at a much slower pace than the railways. By the year 1931, the length of 'metalled' roads per 1,000 persons was just 0.4 kms. This ratio was above 1.5 in other colonies of British (Ceylon and Malaya). The benefit to the government from road construction was relatively low. India has a long coast line which was used for trade and commerce during British rule. There was decline of traditional ports like Mauslipatnam and Cambay. The major ports that carried the bulk of foreign trade were new sites where railways and modern harbours converged (e.g. Bombay, Madras, Calcutta, Karachi and Rangoon). Each of these ports served as an export outlet for the products of a vast hinterland. At the time of independence, rapid industrial development was hindered due to lack of economic infrastructure.

Postal services were started during British rule in 1858 but it became a widely used utility only in the late nineteenth century. This expansion was demand driven because in the absence of banks, post offices worked as the agency for sending internal remittances. Post offices were present in almost all populated villages. This infrastructure of post offices was later useful for the first Indian government for mobilising savings in rural India.

The process of infrastructure development had inherent inequalities. Irrigation systems remained primitive and undeveloped in large parts. The railways de-prioritised roads and electricity generation was limited to important cities. Communication and local transportation thus had high regional variation.

1.3.3 Administrative Infrastructure

Administrative infrastructure is required to run many other institutions and to deliver important services. It is a combination of physical and human infrastructure which helps in running a successful administration for any government. Before independence, each province of India had its own administrative set up. This became a compelling reason to develop administrative infrastructure to rule such a vast area. Land revenue department had been setup in each province. There were frequent revolts and rebellions from masses. Local police stations were, therefore, required to be setup to control any rebellions. Postal and telegraph departments were set up for faster movement of information. The process of elections too began during the British rule only and hence necessary infrastructure was setup to conduct elections. Though this infrastructure was not sufficient to serve entire population, even after independence, the same administrative infrastructure had to be used for different administrative function of the Indian government.

1.4 MACROECONOMIC AGGREGATES

Performance of any economy can be evaluated on the basis of the quantity of goods and services produced in a financial year. When we calculate this total production in monetary terms, it is termed as the Gross Domestic Product (GDP). Beside this aggregate, there are other macroeconomic indicators to measure the strength of an economy. For instance, capital needed to produce goods and services is measured through capital formation and savings. Likewise, for judging the performance of the economy from equity angle, the rate of growth of per-capita income (PCI) is considered. The PCI is arrived at by dividing the national income by the total population.

During 1900-1947, national income increased at a mere 0.4 percent per annum. Per capita income increased by just 0.1 percent per annum. There was thus very little increase in per-capita income during the roughly 50 year period from 1900-1947 (Table 1.1). Growth of national income and per capita income was thus very low. The growth rate in real income across different states in India was unequal. The maximum share of National Income was from agriculture (Table 1.2). Despite this, the growth of the agriculture sector was lowest among all three contributing sectors to the national income.

Table 1.1: National Income and PCI (1900-1947) (in 1948 Prices)

Year	**National Income (in Billions)**	**Per Capita Income (PCI) (in Rupees)**
1900	43.4	228
1947	51.5	239

Source: Tirthankar Roy, The Economic History of India: 1857-1947, Oxford University Press; 3 Edition.

Note: Growth rate in NI over the 47 year period is 0.36 percent and that in PCI 0.1 percent. The growth rates can be verified in Excel by using the formula: =(rate,,-43.4, 51.5)*100. It can be verified for PCI in similar manner.

Table 1.2: Sectoral Share (%) in National Income

Year	**Primary**	**Secondary**	**Tertiary**	**Net income from Abroad**
1900-1904	66	12	23.5	-1.5
1942-1946	53.3	14.5	32.3	-0.2
Growth Rate Per Annum	**0.4**	**1.4**	**1.7**	

Source: Tapan Raychaudhuri, et.al., Economic History of India: Volume 2, Cambridge University Press

Secondary sector consisted of mining, large scale industries and small scale industries. Large scale industry grew at a rate of over 4 percent per annum. But the much larger segment viz. the small scale industries grew at less than 1 percent per annum. Within the tertiary sector the contribution of government undertaking grew at 2 percent per annum while transport and real estate grew at 1.5 percent per annum. As stated above, the overall average rate of growth of Indian economy was 0.4 percent per annum over the period 1900 to 1947. An estimate by Cambridge University historian Angus Maddison reveals that India's share of the world income fell from 22.6 percent in the year 1700 (comparable to Europe's share of 23.3 percent) to a low of 3.8 percent in 1952. This gradual decrease in India’s share of world income explains the reasons for poverty in India at the time of its independence.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) Is the view that the British did not pay adequate attention to developing India’s infrastructure justified despite the fact that India had the largest railway network and in some products like Jute it was also one of the leading producers of the world?

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2) Which social indicators speak of the gross neglect by British policy in terms of the level of social infrastructure that existed around 1947?

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3) Do you agree with the proposition that inadequate attention to developing infrastructure by the British contributed to economic inequalities in India?

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4) At what rates did India's National Income and the Per Capita Income grew over the 47 year period of 1900-1947? How would you characterise the performance of Indian economy in the light of these growth rates?

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1.5 LET US SUM UP

Indian economy was a stagnant and dependent economy at the time of its independence. Per-capita income was low. Foreign trade was motivated to fulfil the needs of industries of England. Agriculture was over burdened with low per hectare productivity. The sector contributed more than 65 percent to GDP but its growth rate was lowest at 0.4 percent among all the three leading sectors of the economy viz. the primary, the secondary and the tertiary sectors. There was thus high dependency of people on agriculture and much disguised unemployment. Literacy rate was low, there was high birth rate and high death rate, health parameters were severally low and epidemics were frequent. As a result, there was hunger and starvation in the economy and unemployment in India was widespread.

1.6 SOME USEFUL BOOKS

1) Tirthankar Roy, The Economic History of India: 1857-1947, Oxford University Press; 3 Edition.

2) Tapan Raychaudhuri, Dharma Kumar, Meghnad Desai and Irfan Habib, The Cambridge Economic History of India: Volume 2, C.1751-c.1970: Cambridge University Press.

3) Dharma Kumar (ed.) (1982). Cambridge Economic History of India Vol. 11, Orient Longmans, Hyderabad.

4) Kapila, Uma (ed.), (2006-07). Indian Economy Since Independence, 18th Edition, Academic Foundation, Delhi.

1.7 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) (i) Widespread unemployment, poverty and hunger; (ii) frequent famines and droughts; (iii) inequitable distribution of national income; (iv) high dependency on agriculture; (v) low level of industrialisation; (vi) low health, education and other developmental parameters etc.

2) 85 percent of population and 50 percent respectively.

3) India was the largest producer of ground nuts (32 percent of world production), 41 percent of Jute and 27 percent of rice. It was the third largest producer of cotton next only to US and China in the world.

4) Low per hectare yield, primitive techniques of production and lack of commercialisation of agriculture.

5) The two World Wars contributed to development of industries like cotton, jute, textiles, chemicals, cement, fertilizers, etc.

6) Partition resulted in a major set back for cotton and jute industries, particularly jute industry, as many jute growing region went to East Pakistan.

7) 1.8 percent of population was employed by industry with a contribution of 6.6 percent to GDP. On account of this, India had to cope with a high trade deficit at the time of its independence.

8) Banking services were grossly inadequate in rural areas. To rectify this, NABARD was formed.

Check Your Progress 2

1) Yes it is justified. The rationale for developing railways and roads on a selective basis to facilitate movement of goods with their own interest in view. Crucial infrastructure development like power, roads to facilitate domestic production, etc. was grossly left deficient. Further, development of social infrastructure or human development, crucially required for economic development, was not given priority.

2) Male literacy was low at 16 percent and female literacy at 7 percent. With infant mortality, maternal mortality and overall death rate being high, life expectancy was as low as 32 years.

3) Yes, because focus on railways de-prioritised roads and electricity generation was limited to important cities. Communication and local transportation thus had high regional variation. Irrigation systems too remained primitive and undeveloped in large parts.

4) 0.4 percent and 0.1 percent (compound annual growth rates) respectively. The growth rates indicate that the Indian economy was nearly stagnant during the first half of 20th century.

UNIT 2 DEVELOPMENT PARADIGMS[*]

Structure

2.0 OBJECTIVES

After reading this unit, you will be able to:

- distinguish between the terms 'growth' and 'development';
- discuss the different approaches to development;
- distinguish between the two economic systems of capitalism and socialism;
- define the concept of 'mixed economy';
- analyse the two major phases of development paths pursued in India; and
- explain the trends in integration of the Indian economy with the global economy.

2.1 INTRODUCTION

Economic growth and economic development are fundamentally different. Economic growth generally refers to rise in the national income or per capita

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[*] Prof. Sebak Jana, Vidyasagar University.

income. In addition to growth, economic development involves improvements in health, education and other aspects of human welfare and also major structural changes like industrialisation and urbanisation. Specific indicators (like HDI) or goals (MDG) are used for measuring development. Human Development Index (HDI) is a composite measure reflecting the goals of leading a long life, acquiring knowledge and material well-being. The millennium development goals (MDGs) rely on a multiplicity of goals and targets for advancing human well-being within a specified time.

2.2 APPROACHES TO DEVELOPMENT

Historically, there has been a number of schools/thoughts on the economic analysis of development [e.g. Adam Smith and Classical Political Economy (1776), Marxist Economics of Marx and Engels (1848), Neoclassical Economics of Jevons, Menger and Marshall (1890s), Keynesian macroeconomics (1930s), Neoclassical growth theory by Solow (1950s), Dependency theories (1960s), etc.]. The classical and neoclassical economists believed that the major cause of underdevelopment is shortage of factors of production like capital and labour and the lack of technological progress. Keynesian school recommended that the problems of underdevelopment can be solved by extension of government activities. Marx explained the problems of underdevelopment in terms of Asiatic mode of production and lack of class struggle. Neo-Marxists writers like Paul Baran and Andre Frank explained the problems of underdevelopment in terms of external factors like global capitalism and exploitation.

For achieving the goals of economic development, there are several approaches. They require specific institutional framework within which economic activities are carried out. Broadly, market and state are two such broad institutions which are expected to facilitate the economic activities.

2.2.1 Market Based Approach

This approach assumes that, under conditions of well developed perfectly competitive markets, resources are used optimally by minimising the costs and maximising profits. Price signals, including the profits, serve as incentive to investment for achieving faster growth. Ideally, therefore, perfectly functioning markets without any intervention are seen as a strategy for faster accumulation and growth. However, in the post-World War II era, when most of the former colonies became independent and embarked upon the process of development, these countries faced serious gaps in markets as these were underdeveloped in many of the economies. The absence of markets was particularly noticeable in the ‘subsistence segments’. These segments were related to several areas of development of public goods for which there was no market but there was an immense public need. Many of these underdeveloped markets had to be developed by the state as an essential requirement for giving a push to the development process.

2.2.2 State Led Approach

In underdeveloped countries with the existence of: (i) subsistence agriculture, (ii) weak industrialisation, (iii) vast underemployment, low income, savings and investment, (iv) poor infrastructure, etc. there was a need for a big push in investment. The supporters for state intervention viewed that desired economic change in key sectors could be achieved through planned mobilisation and allocation of resources to the public sector. However, in many economies which initially favoured this approach, public sector led growth strategy has since fallen out of policy favour on the grounds of generating red-tapism, corruption (rent seeking), inefficiency and losses. Based on these arguments, there has been a tendency towards reducing the role of the state to specific sectors of social importance and establishing the infrastructural base in the economy. There are still those who argue that state's role should not be minimal particularly in the areas of health, education and infrastructure thereby providing the right environment for entrepreneurial activity to thrive.

2.2.3 Inclusive Growth Approach

This approach views growth and equity as complements. In India, the term 'inclusive growth' appeared as an official development strategy in the Eleventh Five Year Plan (2007-12). However, the concept of 'growth with justice' or 'growth with equity' has been part of the planning strategy right from the beginning of the First Plan in India. The basic premise for 'growth with justice' (i.e. distributional justice) has been that in an economy with gross disparities in wealth and assets, growth of national income without intervention would result in perpetuation of inequalities. In other words, besides growth, as reduction in inequalities is one of the objectives of development, it is considered necessary that the growth strategy should involve appropriate institutional arrangements to ensure equitable distribution of the gains of growth. An institutional framework for growth with equitable distribution envisages a substantial role for state as much in the productive sectors as in the regulation of its distribution.

2.2.4 Sustainable Development Approach

The sustainable development argues that global focus on growth should be replaced by the goal of sustainable development to avoid the 'tragedy of commons', a situation in which common resources are overexploited since the individual actors lack the motivation to use them sustainably. Brundtland Commission Report (1987) stated that: *SD is that development which meets the needs of the present without compromising the ability of future generations to meet their own needs*. It, therefore, underlined the two key essentials as: (i) the need to protect the interests of the world's poor; and (ii) the limitations of technology and social organisations in preventing the exploitation of environmental resources (so as not to affect the needs of future generations) adversely should be duly accounted for. The Commission emphasised the overriding priority of attending to the needs of the poor within any society in particular and the world as a whole in general. The rationale for SD is, therefore, to raise the standard of living, especially the standard of living of the most disadvantaged segments in society, taking due care to avoid or minimise 'uncompensated' future costs. The Sustainable Development Goals (SDGs) cover 17 goals: (i) no poverty, (ii) zero hunger, (iii) good health and well-being, (iv) quality education, (v) gender equality, (vi) clean water and sanitation, (vii) affordable and clean energy, (viii) decent work and economic growth, (ix) industry, innovation and infrastructure, (x) reduced inequality, (xi) sustainable cities and communities, (xii) responsible consumption and production, (xiii) climate action, (xiv) life below water, (xv) life on land, (xvi) peace, justice and strong institutions and (xvii) partnerships to achieve the goals.

2.3 ECONOMIC SYSTEMS: CAPITALISM AND SOCIALISM

Capitalism is a societal structure in which the capitalist class thrive by virtue of their ownership and control of the society's means of production. It is thus an economic system based on private ownership of property and means of production in which free market that allows competition for exchanging goods and services operates. Thus, in principle, it is the individuals who decide on 'how, what and for whom to produce'. Under capitalism, individuals are thus encouraged to follow their own self interest while market forces of demand and supply are relied upon to coordinate the economic activity. Different countries have been endowed with different forms of capitalism (found in modern times) such as state-guided capitalism, big-firm capitalism and entrepreneurial capitalism. Socialism, on the other hand, is a system that emphasises the collective ownership of the means of production. It ascribes a large role to the State in the running of the economy with widespread public ownership of key industries. Although socialism allows limited scope to market forces, Marx regarded socialism as a transitional stage between 'end of a private enterprise system and the beginnings of communism'. In the process of its historical evolution, we find different forms of socialism: (i) socialism with the entire economy associated with a centrally planned economic system (as in earlier Soviet-type economies); (ii) market socialism i.e. economies with a modified type of central planning with a role for market mechanisms (e.g. Hungary and Yugoslavia) a kind of planned economy which attempts to improve allocation using markets; etc.

In theory, therefore, unlike capitalism, socialism is a system based on individual's goodwill to others rather than their own self-interest. However, in practice, socialism has become an economic system based on government ownership of the means of production with centralised planning. Since socialism is based on a system which originated in the former-Soviet union, it has often come to be referred as 'soviet-style socialism'. In the 1980s, a number of countries had Soviet-style socialism but in the late 1980s and early 1990s, many of these economies/countries were in turmoil and ultimately veered towards market oriented systems. The example of China shows another form of centralistic socialism, which accords priority to markets ensuring high growth rates but not social freedom. We can, therefore, conclude that within the two broad systems of capitalism and socialism, the paths to development pursued in terms of ISI or ELG varies depending on the domestic socio and economic compulsions of a country. As you must be aware by now, India was forced to adopt policies of economic reforms due to conditions of economic distress faced on account of critical BoP crisis in 1991. Nevertheless, we can say that the Indian stand, taken as early as in 1950s, to adopt the mixed economy path with social freedoms enshrined in the constitution of the country reflected wisdom in which the choice between ISI strategy made in the beginning and the shift to ELG strategy made later stands out as a model of balanced perspectives.

2.4 TWO PHASES OF DEVELOPMENT: MIXED ECONOMY

Mixed-economy combines the state and the market, in a mutually reinforcing framework, in its approach to development. It involves the co-existence of private sector enterprises alongside the public enterprise. It combines the salient features of capitalism and socialism. This means the capitalist enterprises with self-interest and profit motive operate in a number of activities alongside many public sector production units. The latter operate both in production as well as social sectors but more in the sectors like primary education and primary healthcare with a larger societal interest. India is regarded as a good example of mixed economy which followed this model right from the time of its independence. While both the public and private sectors coexisted, a central role was assigned to the state's planning machinery for resource allocation across sectors. The stated primary objectives of the planning process were economic growth with social justice and self-reliance. The early Five-Year Plans of India provided the basic framework for the economic development with a mixed economy strategy. The apparent logic behind this policy was to place the commanding heights of the economy in the hands of the State, through state ownership of basic heavy industries and infrastructure sectors and to allow the private sector to operate where scale economies were not important. The basic idea behind the approach was that through a judicious mixture of plan stimulus and market efficiency, the objectives of both growth and equity could be promoted. In the agricultural sector, production decisions were by and large taken by private producers with government's role limited to infrastructure development by way of irrigation facilities, extension services and trade in some major commodities. In the manufacturing and service sectors, state played a commanding role by owning and operating many industries and by regulating private investment through the instrument of licensing.

Since the introduction of economic reforms in 1991, there has been a substantial expansion of economic space of private sector with its corresponding contraction for the public sector. Thus, the mixed-economy approach in India can be said to have moved from the state of commanding heights to the public sector in the initial four decades of its planning to a state where the majority space was accorded to the private sector and the market. Let us now take a somewhat detailed look at these two phases of the Indian economy in its transition.

2.4.1 Public Sector at Commanding Height (Phase I)

In any economic system state can play at least three major roles viz. (i) as a producer of goods and services, (ii) as a regulator of the overall system, and (iii) as a supplier of 'public goods' or 'social goods' like primary education and health. The first role as a producer of goods and services finds expression in the system of planning with public enterprises engaged in major productive activities, at least in the critical areas of the economy (e.g. power generation and distribution). The second role of 'regulator' conveys the authority wielded by the state in setting the rules of the game. In fact, the quality of the economic performance of markets depends critically on the quality of public intervention through regulation by way of a complementary role. The third role of state is that of a 'welfare provider' i.e. this role prompts the state to support private initiatives through the provision of required infrastructure and by efforts directed at human development so as to enhance the capability of the masses. This can therefore be regarded as the role of a 'facilitator' where the state intervenes in areas where the markets cannot perform effectively.

In the initial years of planning, as India was capital constrained, and given that the markets were not well formed, the system devised was a combination of involvement of the state in production in some industries and regulate the private sector in others. The role of regulation was carried out by the grant of licenses required for investment, production and imports. In particular, availability of foreign exchange, credit allocation and in some cases even prices (e.g. price of the essential commodities, agricultural commodities) were controlled by the government. Also, the government reserved the right to enter even those industries which were not explicitly reserved for the public sector. Public sector was thus seen as an active agent of resource mobilisation for undertaking large, coordinated investments (considered the ‘Big Push’ necessary to jumpstart the economy). As a result, between 1950 and 1965, public sector capital formation, as a percentage of GDP, more than doubled from 3.1 to 7.5. However, in the later years, not only did planning lose its bite, but also the public sector’s capacity for resource mobilisation severely declined. Declining public investment from the mid-1960s was instrumental in a growth slowdown that lasted till the late-1970s. Thus, from a position occupying the commanding heights of the economy, the public sector degenerated into an employment-granting welfarist role agency.

2.4.2 Increasing Role of Market (Phase II)

India has since come a long way in terms of shredding traces of its short term vision by accepting the principle of the primacy of market for its economic management. This can be seen by comparing the key features of reforms adopted initially in the 1980s and pursued vigorously during the 1990s.

The key features of reforms initiated in the 1980s are : (i) liberalisation of imports (especially of capital goods and intermediate inputs); (ii) extension of export incentives through the tax system and liberal access to credit and foreign exchange; (iii) significant relaxation of industrial licensing requirements through direct ‘de-licensing’ of some industries and through ‘broad banding’ (i.e. permitting firms in some industries to switch production between similar product lines); and (iv) decontrol of administered prices for key intermediate inputs. In light of these important changes, the reforms of the 1980s, came to be characterised as ‘pro-market’ in orientation.

The reforms of the 1990s, which are distinguished from the reforms of the 1980s, include: (i) abolition of industrial licensing and narrowing the scope of public sector monopolies to a much smaller number of industries; (ii) liberalisation of inward foreign direct and foreign portfolio investment; (iii) sweeping liberalisation of trade with the elimination of import licensing and progressive reduction of non-tariff barriers; (iv) financial sector liberalisation including the removal of controls on capital issues (e.g. allowing foreign private banks to operate in the economy, opening up of insurance sector); (v) liberalisation of investment policies in import of services such as telecommunications; etc.

Countries in general are moving away from the role of state as a producer of goods and services. A major reason for the emergence of skepticism regarding the benefits of state intervention has been the growing perception that government failures on account of political interference and bureaucratisation may, in many cases, exceed market failures. Given the importance of incentive reward system in achieving consistent improvement in efficiency, on balance, it is well acknowledged that markets provide a better incentive for many economic activities to be run on a corporate style by the private sector. Closely related to these institutional factors is also the belief that a competitive environment creates a better climate conducive to enhancing efficiency.

The decreasing role of state as a producer of goods and services and the increasing primacy accorded to market forces enhances the role of state from being a ‘regulator’ to that of a ‘facilitator’. As a general rule, markets must be allowed to function freely wherever price signals clearly work in achieving efficiency. State investment becomes necessary only in areas where markets do not exist or where they cannot perform efficiently.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) How is development distinct from growth?

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2) What is the basic assumption requiring to be met for the success of market based approach to development?

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3) What is the rationale behind the state led development strategy?

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4) What is meant by 'inclusive growth' strategy?

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5) What is the essence of the 'sustainable development' (SD) approach?

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6) Define the term 'mixed economy'.

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7) What empirical indicator can you cite to demonstrate the leading role assumed by the public sector in the initial years of planning in India? What trend did this indicate in the later years?

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8) What are the major reforms introduced in the 1990s to characterise the change in developmental approach as one of 'pro-market'?

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2.5 INTEGRATION WITH THE GLOBAL ECONOMY

To what extent has India integrated itself with the rest of world? Has the pace of integration quickened since the beginning of economic reforms in the early 1990s? Integration can be measured by quantifiable variables such as trade to GDP ratio, mean tariff rate, diversification of exports, FDI inflow as percentage of GDP, etc. We take a brief look at the trends in these variables below.

2.5.1 Trade GDP Ratio

Countries that are highly integrated in the world economy tend to exhibit a high trade to GDP ratio. An indicator of extent of integration is provided by the two 'trade orientation ratios' (TOR) viz. (i) share of exports in total GDP; and (ii) combined share of exports and imports to GDP. Economic reforms over the years have made India a much more open economy. The share of Indian exports of goods and services in its total GDP has increased from 6.5 percent in 1991-92 to 19.1 percent in 2013-14. The combined share of exports and imports of goods as a percentage of GDP at market prices has increased from 13.6 percent in 1991-92 to about 46.5 percent in 2013-14. Despite these significant increases, India's share in global merchandise exports has increased slightly from around 0.6 percent in 1993 to 1.7 percent in 2014. Likewise, India's share in global imports has also modestly increased from around 0.6 percent in 1993 to 2.4 percent in 2014 (Table 2.1).

Table 2.1: Exports and Imports (%) by Countries/Regions in Merchandise

Country	Export Share		Import Share	
	1993	2014	1993	2014
Asia	26	32	23.5	31.5
China	2.5	12.7	2.7	10.5
Japan	9.8	3.7	6.4	4.4
India	0.6	1.7	0.6	2.5
Six East Asian traders	9.6	9.6	10.2	9.4

Source: WTO, International Trade Statistics, 2015

2.5.2 Mean Tariff Rate

Another indicator for measuring a country's integration with the rest of the world is through estimation of a country's mean tariff rate. The mean tariff rate for all products in India has declined from 80 percent in 1990 to 6.3 percent in 2012.

2.5.3 Diversification of Exports

Countries that are more integrated into the world economy experience not only rapid export growth but also export diversification. During the initial years of liberalisation, India's exports were less diversified with top 20 countries accounting for more than 80 percent of India's total exports. Today (2017), the corresponding percentage with the top 20 export destinations account for 67 percent of total exports reflecting greater diversification.

2.5.4 Product Composition of Exports

Another indicator of integration is how much a country is moving away in its exports from traditional and primary products into high-value-added exports. This is reflected in the share of technologically-advanced goods in manufactured exports. There is a major shift in India's exports, away from primary products like textiles towards more value added items like engineering goods, refinery products, pharmaceuticals, etc. Thus, India's export basket is now more diversified with non-traditional items which include: engineering goods accounting for 23 percent in India's total exports in 2014-15.

2.5.5 Direction of Exports

A significant change in India's exports during post-liberalisation era has been the increasing share of developing countries compared to the share of developed economies. Between 1990-91 and 2014-15, the share of Asia has increased from 34 to 49 percent and that of Africa from 3 percent to 11 percent. On the other hand, share of Europe has come down from 41 percent to 19 percent during this period.

2.5.6 Financial Integration

The level and pace at which the inflow of FDI increases serve as an important indicator of financial integration. The net inflow of FDI as a percentage of GDP has increased from 0.03 percent in 1991 to 1.96 percent in 2016.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) In terms of two TORs (trade orientation ratios), how does the integration of Indian economy with the rest of the economy figure?

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2) In terms of what other specific respects, can the integration of Indian economy with the rest of the world be specified?

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3) How is financial integration of an economy measured? What has been the position in this respect for India?

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2.6 LET US SUM UP

The approach to development has steadily shifted from state led approach to market based approach. In the initial stages of development, due to poor infrastructural base and high degree of concentration in the production of primary products, a developing economy will be required the assistance of state for its investment. In other words, the development of markets would be inadequate to rely on the price signals for achieving the developmental goals. This feature has commonly influenced all major economies to pursue in their initial stages of development a policy of state led growth. India too embarked on this approach experimenting with the same for close to four decades from 1950 to 1990. However, the ability of public sector to mobilise resources required for expansion of economy declined sharply right after the late 1960s. Concerns of sustainable development also became critical in policy planning in India as was the goal for aiming 'inclusive development'. The result was a change in approach to development from a controlled public sector led regime to a market based approach in the 1990s. The polices implemented in the last two decades have seen an appreciable increase in the ratio of 'exports plus imports to GDP' from 14 percent in 1992 to 47 percent in 2014. Despite this steep increase, in terms of overall share of total global exports, India's share has marginally moved up to reach 1.7 percent in 2014 (from 0.6 percent in early 1990s). Thus, in spite of improvements in geographic and product composition diversification, lowering of 'mean tariff rate', etc., in terms of financial integration measured by 'percentage inflow of FDI to GDP' India's level is low at below 2 percent in 2016.

2.7 SOME USEFUL BOOKS

1) Chakravarty, Sukhamoy (1987). 'Development Strategies in the Asian Countries' In Louis Emmerij (ed.), *Development Policies and the Crisis of the 1980s.* OECD.

2) FICCI (2016). Economy Insights – Trends in India's Foreign Trends, May, 2016.

3) Balakrishnan, P (2010). Economic Growth in India: History and Prospect, Oxford University Press.

4) Basu K. (Ed.) (2008). *The Oxford Companion to Economics in India,* Oxford University Press, USA.

5) Bhattacharya D (1993). *The Political Economy of Development,* Academic Publishers.

6) Perkins D. H., Radelet S., Lindauer D. L., & Steven A (2013). Economics of Development, W.W. Norton and Company, New York.

2.9 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Growth relates to increase in only income like NI or per capita income. Development takes into account the distributional dimension of growth in income relating the spread to how far the benefits of growth have reached the marginalised sections in terms of their education and health needs. It also includes aspects like industrialisation and urbanisation.

2) The approach assumes conditions of well developed competitive markets with signals of price and profits to be available for their efficient functioning i.e. optimum production with minimum resource inputs leading to faster growth.

3) The rationale is one of ‘big push’ required under conditions of underdevelopment like subsistence agriculture, weak industrialisation, etc. In such situations, state led heavy investment in key sectors of economy through planned mobilisation and allocation of resources to public sector institutions/enterprises was held as the key.

4) The inclusive growth strategy implies that the benefits of growth realised in terms of increase in national income should percolate downwards to the lowest rungs of society reaching or in a way as to ‘not exclude’ the marginalised sections of society. This requires institutional arrangements to ensure the equitable distribution of the gains of growth which needs to ensured only by the state.

5) The SD approach underlines two essentials of: (i) protecting the interest of the world’s poor from the exploitation of natural resources which impinges on the livelihood statuses of the poorer sections to be duly accounted and compensated; and (ii) limitations of technology and social organisations in abetting the exploitation of natural resources to be duly accounted for.

6) The term refers to the coexistence of both the public and the private sectors combining the state with the market in a mutually reinforcing manner.

7) The public sector investment as a percentage of GDP rose from 3.1 percent to 7.5 percent over the years 1950-65. In the later years, the ability of the public sector to mobilise resources declined so sharply that its role came to be described as ‘employment granting and welfarist’.

8) The measures are: (i) abolition of industrial licensing; (ii) liberalisation in the inward flow of foreign direct and portfolio investment; (iii) trade liberalisation with elimination of import license and progressive reduction of non-tariff barriers; (iv) financial sector liberalisation like allowing the opening of foreign private sector banks and the insurance sector; and (v) liberalisation of investment policies in import of services like telecom.

Check Your Progress 2

1) In terms of only total exports to total GDP, the percentage ratio has increased from 6.5 percent in 1991-92 to 19.1 percent in 2013-14 (i.e. an increase of close to 3 times). In terms of combined share of 'exports plus imports' to total GDP, it has increased from 14 percent to 47 percent over the corresponding period (i.e. an increase of 3.4 times). Despite this increase, India's share in global exports has increased from 0.6 percent to 1.7 percent only (i.e. although the increase is once again close to 3 times, the ratio is still very meagre).

2) In terms of mean tariff rate, there is a drastic decrease from 80 percent in 1990 to 6.3 percent in 2012. In terms of product diversification defined as the percentage of exports to top 20 countries, the ratio has fallen from 80 percent to 67 percent. The share of engineering exports, in the total exports has risen to 23 percent in 2014-15.

3) Financial integration is measured in terms of the percentage increase in FDI inflow to GDP. For India, this has increased from 0.03 percent in 1991 to 1.96 percent in 2016.

UNIT 3 STRUCTURAL CHANGES[*]

Structure

3.0 OBJECTIVES

After reading this unit, you will be able to:

- define the term 'structural change';
- analyse the growth in the National Income of India;
- discuss the trends in the structural composition of GDP among the three principal sectors of the economy;
- indicate the changing trends in savings and investment;
- describe the trends in the sectoral distribution of employment;
- state the extent of urbanisation as a result of structural changes in India;
- explain the magnitude and causes of Regional disparities in India; and
- outline the concept of 'incremental capital output ratio'.

3.1 INTRODUCTION

Economic development has historically been associated with 'structural changes' in the national economies. The structural change has often been defined as a process by which transfer of economic benefits is evidenced in terms of major changes in the relative sectoral distributions of income and employment in the economy. The most common structural change that is

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[*] Dr. Karmakar, Jadavpur University; Prof. B.S. Prakash, IGNOU

observed historically is in terms of income and employment shares in the three principal sectors of the economy viz. the agriculture, industry and the services sectors. In the light of this, an economy which is characterised by a predominant share of agriculture in income and employment is characterised as ‘under-developed’. However, exceptions to this can be found when an economy diversifies its primary sector activities from agriculture to ‘allied agriculture’ (which includes rearing of animal husbandry) where upon such economies have been able to attain a developed status (e.g. New Zealand, Argentina, etc.). Their share of agriculture in GDP has, however, shrunk over time to indicate their operations are modernised to become industries. The important feature therefore is industrialisation i.e. an organised way of carrying out activities, moving away from traditional farming to modern farming practices in agriculture, and diversifying further to non-farm industries (beginning first with agro-based industries and then on to non-agro industries). With such development (i.e. when the transition from the traditional agricultural base to the modern industrial base sets-in), over time, the share of industry in these economies has increased and that of agriculture has declined. After reaching a further reasonably high level of development, the services sector attains a point of eminence in the economy. With such a transition, a resultant economic structural change is one in which the earlier rural to urban ratio gets transformed to a larger urban to rural economic landscape – a phenomenon referred to as ‘urbanisation’. This pattern is generally observed to hold across many countries with differing levels of development. In general, structural shifts with changing sectoral shares are found both in the national product (i.e. GDP or income) and the work-force (i.e. employment). A resulting outcome is an increased formalisation of the economy from a large informal base to that of a formal base.

In India, since the initiation of economic reforms and acceleration in the rate of growth since the 1990s, the economy has followed a somewhat different growth pattern in which the share of industry in itself has not increased much but that of services has expanded vastly. This, on the face of it, appears to be different from the one observed in the development process of both the earlier and the more recently developed countries. Such a growth pattern needs to be analysed carefully.

3.2 GROWTH IN NATIONAL INCOME OF INDIA

In India, after independence, the very first report on National Income estimates was published in 1951. The report was prepared by a committee of national income (NI) under the Chairmanship of Prof. P.C. Mahalanobis with Prof. D.R. Gadgil and Dr. V.K.R.V. Rao as its two members. The estimated total national income for the year 1948-49 was placed at Rs. 8,830 crore. Subsequent to this, estimates of NI have been compiled and published annually. It is important to note that the NI estimates are first compiled in ‘current prices’ but when temporal comparisons need to be made, it is necessary to convert them to a ‘constant base’. Such a conversion procedure is required to eliminate the effect of change in price levels during the period of comparison. The estimates of NI are nowadays presented both in current and constant price series in the annual publication called the National Accounts Statistics. The base year used for presenting the NI estimates under the constant price series is frequently updated i.e. shifted to a base year of a later year so as to be in tune with the recent changes in composition of production basket and prices. Growth rate in NI calculated to a constant base makes an assessment of the performance of the economy both possible and realistic.

3.2.1 The Period of 1951-1980

It has been a practice under the planned development programmes followed in India to set a target of achievement and then assess the actual achievement against the target set. The results on this score are presented in Table 3.1. During the three decade period of 1951 to 1979, only in two plan periods (viz. in the first and the fifth plan periods) we could meet the target set. This period can therefore be described as one in which India achieved a modest growth rate. Two main reasons for the lack of achievement against the target set are: (i) the three wars with neighbouring countries fought in the years 1962, 1965 and 1971; and (ii) the three **major** droughts during the years 1966, 1972 and 1979. Of these three, the first two affected an estimated 50 million population while the third affected an estimated 200 million. Such catastrophic events which have caused a major dent in the economic performance of the country have rendered the long term average growth in India's NI to hover around 3.5 percent which has been described as the Hindu rate of growth in some economic literature. In the light of this, breaking this barrier to touch the 5 percent annual growth rate in the fifth plan period is indeed a milestone in India's economic performance which is despite the fact that the year 1979-80 registered a negative growth. In fact, in addition to the three years identified as major droughts, the years of 1969 and 1970 are also recorded as drought years with an estimated 15+ million persons affected in each.

Table 3.1: Growth (%) in India's NI over the different Plan Periods

Plan	Period	Target	Achievement
First Plan	1951-56	2.1	4.6
Second Plan	1956-61	4.5	4.1
Third Plan	1961-66	5.6	3.3
Fourth Plan	1969-74	5.7	3.0
Fifth Plan	1974-79	4.4	5.0
Sixth Plan	1980-85	5.2	5.3
Seventh Plan	1985-90	5.0	5.8
Eighth Plan	1992-97	5.6	6.5
Ninth Plan	1997-2002	6.5	5.4
Tenth Plan	2002-07	8.0	7.6
Eleventh Plan	2007-12	9.0	7.5
Twelfth Plan	2012-17	-	6.7*

Source: Planning Commission and Economic Survey , 2015-16. The growth rates (GRs) are calculated to 2004-05 (i.e. base year) prices. * Figures for 12th Plan are at 2011-12 prices.

3.2.2 The Period of 1980s Onwards

In the decade of 1980s, India witnessed acceleration of national income growth as compared to the low growth rate during the 1960s and 1970s. During both the sixth and the seventh plan periods of 1980s, as also in the subsequent Eighth plan period, the growth rates in NI achieved was higher than the targeted growth rates. However, during the successive three plan periods viz. Ninth, Tenth and Eleventh plan periods, there was once again a decline in the growth rates of NI registered with reference to the targeted growth rates. Two major reasons are identified for this performance decline viz. (i) a global slow down following the East Asian crisis of 1997; and (ii) poor monsoon and the lack of thrust in the pace of reforms initiated. However, while it is not absolutely clear how far the integration of Indian economy with the global world was responsible for India's slowdown (since India had opened up its economy only in 1991 and was following a policy of moderated opening up), one cannot ignore pointing out the domestic factors contributing to policy instability. In so far as a stable government is necessary to provide the right policy signals required for a favourable investment climate, the years of late 1990s witnessed a succession of coalition governments many remaining in power for short drifts of no more than a few months. It is only towards the end of 1999, that a somewhat stable government came to power and during its tenure (1999-2004) succeeded in instilling a renewed rigour to continued reforms. As some of its results started becoming visible with the known time lag for policy decisions to show, a second spell of instability in political atmosphere came to prevail (over 2009-2014) after a 5-year period of relative stability during 2004-09. The latter period i.e. 2009-14 was marked for many scams pointing out to significant amounts of money going into unproductive channels. It is thus fair to say periods of political instability or uncertainty also contributed to the lack of achievement in the growth of NI during the later years of 1990s stretching through the years of 2000s in no insignificant measure.

Data from 2011-12 onwards are available from the new series with base year 2011-12. Taking the Twelfth Plan figures also into account, the average long term growth rates in India's NI, split into three major phases, is notable as follows: Phase I, 1951-1979, 4 percent; Phase II, 1980-1997, 6 percent; and 1997-2017, 7 percent. This has rendered India to be regarded as one of the fastest growing emerging market economies of the world although this trend was in evidence even by the end of 1990s.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What would you identify as the necessary components of 'structural change'?

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2) Do you agree that an economy that is predominantly agricultural is necessarily an under-developed economy? Give reasons for your answer.

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3) Why is it necessary to convert the estimates of NI measured in current prices to that in constant prices?

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4) Why did India largely fail to achieve the targeted growth rates in NI during the period 1951-80?

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5) What are the two major factors identified for the decline and the less than the targeted growth rates in the NI of India during the later years of 1990s?

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6) Do you agree that the period of economic slowdown during the late 1990s was entirely due to the two factors identified in 5 above?

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7) Do you agree that India has managed to emerge as a fast growing emerging economy? Justify your answer.

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3.3 SECTORAL GROWTH/CHANGES

Simon Kuznets (1966) first demonstrated that the real effects of growth are evidenced by changes in sectoral compositions i.e. over the agriculture, industry and the services sectors for reasons of both demand and supply. Fisher (1939) and Clerk (1940) had advanced the same line of thought. The changing inter-sectoral profile of NI/GDP for India is presented below (Table 3.2). Important trends that flow from the data are as follows.

Table 3.2: Inter-Sectoral Composition of GDP (%)

Year	Agriculture	Industry	Services
1950-51	53.1	16.6	30.3
1960-61	48.7	20.5	30.8
1970-71	42.3	24.0	33.8
1980-81	36.1	25.9	38.0
1990-91	29.6	27.7	42.7
2000-01	22.3	27.3	50.4
2010-11	14.5	27.8	57.7
2011-12	13.9	27.0	59.0

Source: Economic Survey (base 2004-05)

Share of Agriculture in GDP: The share of agriculture in GDP has declined from 53 percent in 1950-51 to only 14 percent in 2012. The net decline over the 60+ year time period is thus to a tune of 39 percent. The declining share of agricultural sector is consistent with the development trajectory of a growing economy. However, in view of the continued dominance of relatively high employment share in agriculture and allied activities (48.9 percent in 2011-12), agricultural growth by itself continues to remain vital for jobs, income and food security. Moreover, for all agro-food industries, agricultural sector remains the main source of raw material supply.

Share of Industry in GDP: The share of industry in GDP has increased from 17 percent in 1950-51 to 27 percent in 2012. The increased share of industry is thus only by 10 percent over the 60+ year period. This means that the gain by industry, on account of the decline in agricultural share in NI, is less than one-third (since 10 × 3 = 30 which is much less than the total agricultural sector's decline i.e. 39 percent)

Pre-eminence of Services Sector: The most striking feature of the structural change in the Indian economy over the six decade period has been the pre-eminence of services sector (from 30 percent of its share in GDP in 1951 to 59 percent in 2012). This pace of expansion is mainly due to the growth of services sector constituents like communications, banking and insurance. The factors responsible for the rapid growth of the services sector are further identified as: (i) with the economic growth and industrial development, demand for services like transport, communication, electricity, storage, finance, etc. has increased tremendously leading to the expansion of the services or the tertiary sector; (ii) rapid development of Information Technology services has proved to be a great source of expansion for the communications sector; (iii) defence, civil administration, economic and social services like health and education have also made a huge contribution for the growth of service sector; and (iv) due to increase in the disposable income of the large middle class section, demand for services like hotels and restaurants, tourism and transport, communication, etc. has increased.

Thus, manufacturing which has been observed historically to be the main contributor of growth, at least in the initial period of economic development, has played only a minor role in India. The share of industries in GDP has remained stagnant at around 27 percent (in 2004-05 prices) since 1991. In other words, unlike other developed countries, India has become a post-industrial 'service economy', bypassing industrial development. Two reasons indicated for such a trend are: (i) development of communication technologies which has generated demand for skilled jobs causing the movement of people across countries; and (ii) demonstration effect by developed countries leading to change in demand pattern for services in India. More recently, in 2018-19, the share of industry in GDP has slightly increased to around 30 percent [29.6%: Table 3.2(a)].

Table 3.2 (a): Sectoral Share (%) of GDP: 2013-19 (base 2011-12)

Year	Agriculture	Industry	Services
2013-14	20.7	28.3	51.1
2016-17	18.2	28.4	53.3
2018-19	16.1	29.6	54.3

Source: Economic Survey: 2019-20, Vol. 2, Table 1.3 B, A7, p-33

3.3.1 Savings

Generation of employment depends on investment – both public and private. For this savings is important. The Ministry of Statistics and Programme Implementation (MSPI), through its Central Statistics Office (CSO), publishes data on savings by three principal sectors of the economy viz. household sector, private corporate sector and public sector. Trends in savings over the recent years, indicate a steady decline in 'gross domestic savings' (Table 3.3).

Table 3.3: Domestic savings as percentage of GDP (2011-12 Series)

Sector	2011-12	2014-15	2017-18
Household	23.6	19.6	17.2
Private Corporate	9.5	11.7	11.6
Public Sector	1.5	1.0	1.7
Total	**34.6**	**32.2**	**30.5**

Source: Economic Survey 2019-20, Vol. 2, Statistical Appendix, A 26, Table 1.9, p-30.

3.3.2 Investment

There are three institutional sectors that save and invest. These are: households, private corporate sector and public sector. The public sector consists of the government and the public corporations. The combined rate of investment (i.e. investment to GDP ratio) was an average 24.5 percent over the period 1991-2004. This touched 30 percent in 2004-05 and over the next eight years i.e. 2005-2013, it averaged 35.4 percent. The difference between the domestic savings and the total investment is bridged from other sources like FDI, foreign remittances, etc. Since the trend in domestic savings is one of decline and that in investment is increasing, it follows that in more recent years the inflow of capital from outside is on the increase. Between the three constituents of domestic savings, there has been a steady decline in the public sector savings. For instance, the share of public sector savings was around 4-5 percent in the early 1980s but it had dropped to just above 1 percent in 2015. The bulk of the savings and investment has therefore been from the household and the private corporate sectors in which the foreign remittances and the FDI part has come to occupy an important place. Leaving aside this part, between the three constituents, with some variations over the years, the household sector accounts for about 45 percent and the corporate sector around 35 percent. The balance of 20 percent is from the government/public sector.

3.3.3 Employment

As stated in the beginning, structural change refers to a major shift in the relative shares of employment and income, transferring the benefits of growth to the people in the lower rungs of society. It also refers to occupational shift from agriculture to industry. Such a shift would result over long term time horizons for which we should ideally take the longest available time series. Notwithstanding this, for the purpose of current section, it is illustrative to first take a look at the post-1991 employment scenario and then contrast it with that in the period before (i.e. 1951-2000). This would not only give us the post-reform scenario but also aggregate for the various efforts made in the pre-liberalisation decades stretching over the nearly eight plan periods.

Table 3.4: Share of major sectors in total employment (percent)

Sector	1999-2000	2004-05	2011-12	Shift (2000-12)	2018-19
Agriculture & allied	59.9	58.5	48.9	- 11	43.2
Industry	16.4	18.2	24.3	+ 8	24.9
Services	23.7	23.3	26.9	+ 3	31.9

Source: Rangarajan, et. al. 2014

Table 3.5: Composition of Rural Employment (percent)

Sector	1993-94	1999-2000	2004-05	2009-10	Shift (1994-2010)
Agriculture & allied	78.4	76.2	72.6	67.9	- 10.5
Non-agriculture	21.6	23.8	27.4	32.1	+ 10.5

Source: Papola & Sahu, 2012.

The changing composition of agricultural employment in general and that of rural non-farm employment in particular, shows a significant 11 percent shift over the years 2000-2012 (Table 3.4). The distribution of this shift between the industrial and services sector is 8 percent and 3 percent respectively. This shows that contrary to the expectation, the absorption of labour by the industry has been higher than in the services sector in the post-2000 years. Note that we are taking here an all India picture (i.e. a mixture of skilled and unskilled workforce) whereas were we to take a look at the specific picture of 'educated workforce only' the picture could have been different. Given that in 1951, out of a total of 143 million workers, 100 million were engaged in agriculture, and therefore the percentage of people employed in agriculture was close to 70 percent, over the 5-decade period of 1951-2000, it is significant to note that the percentage of workers engaged in agriculture had decreased by a mere 10 percent over this 50 year period. Thus, the 11 percent decline in this respect, during the 12 post-2000 years supports the conclusion that there has been a strident pace picked up in the extent of this structural shift in the non-agricultural sector in the post-2000 years. Likewise, the corresponding shift towards non-farm employment in rural areas has also evidenced a similar shift of 10.5 percent decline over 1993-2010 (Table 3.5). However, we should note two important points here: (i) the 10 percent decline in agricultural employment achieved during 1951-2000 was through much more difficult times than that during 2000-12; and (ii) the denominator to the percentages in Tables 3.4 and 3.5 are different (i.e. in 3.4 it is the rural + urban workforce whereas in 3.5 it is only the rural workforce). Notwithstanding these differences, taken together, the structural change in the shift of workforce over the combined period of 1951-2012, from 70 percent to 49 percent (i.e. a 21 percent decline) is significant. The share of workforce in agriculture has further declined to around 43 percent in 2019. The percentage decline in the agricultural workforce during the post-2000 years is close to 17 (- 16.7 percent).

3.3.4 Urbanisation

In the introduction to the unit, we made a reference to the expected change in the rural to urban share of the economy by the process of accelerated urbanisation expected to result over time. As a result of the transformation over the decades, the distribution of rural to urban population has changed by 13 percentage points over the 5 decade period of 1961-2011 (Table 3.6). The percentage of rural population has decreased from 82 to 69 percent i.e. by 13 percentage points. The increase of 13 percentage points in the corresponding urban population is distributed between the pre-reforms (1961-1991) and the post-reforms (1991-2011) periods by 7.5 and 5.7 percentage points. The ratio of 7.5 : 5.7 indicates a per-decade-average of 2.5 for the three pre-reform decades of 1961-91 and 2.85 for the two post-reform decades of 1991-2011. This suggests that the pace of urbanisation has been faster in the post-reform years. In other words, the pace of reforms has accelerated during the post-liberalisation period supporting the hypothesis that structural transformation of the economy will become more fast-tracked once the process establishes itself in the economy.

Table 3.6 : Change in Rural-Urban distribution of population (percent)

Year	Rural	Urban
1961	82.0	18.0
1971	80.1	19.9
1981	76.9	23.1
1991	74.5	25.5
2001	72.2	27.8
2011	68.8	31.2

Source: Decadal Census, 2011.

3.4 REGIONAL DISPARITIES IN INDIA

Since its inception Indian planning has been concerned with the idea of balanced growth. But despite this, unbalanced growth and regional disparities have remained, since many factors like the initiatives of the state governments in initiating progressive policies, the social context in which the people in a state are not able to take advantage of policies and schemes, etc. operated at the grassroots level. As a result, the gains of the rapid growth have not reached all parts of the country and all sections of the people in an equitable manner. While differences in Gross State Domestic Product (GSDP) growth rates and absolute level of per capita GSDP are only summary economic indicators of disparities, there are wide variations between the States of India on health, education and infrastructural indicators. In such a scenario, while high growth rates have led to a spiral of commercial and service sector activities in the already developed regions of the country, the backward areas have continued to lack even in basic amenities like education, health, housing, rural roads, drinking water and electricity. Livelihood options are also limited as agriculture does not give adequate returns and industry and services have been able to absorb limited surplus labour from agriculture. As a result, people seeking employment in low skill, low paying jobs is a common manifestation of such constraints in many rural areas. Redressing regional imbalances and disparities has, therefore, not only been a goal in itself but is essential for maintaining the integrated social and economic fabric of the country.

3.4.1 Magnitude and Causes of Regional Disparities

The major factors on which particular attention for minimising the regional disparities is required are the following.

Population Below Poverty Line: The percentage of population living below the poverty line in different states needs to be taken into account for minimising the regional disparities. For instance, in 2011-12, only three states (viz. Bihar, UP, and MP) together accounted for 44 percent of the total population in the country. The percentage of population below poverty line was also much above the all India level (27.5 percent) in this regard [e.g. Bihar 41.9 percent, Chhattisgarh 40.9 percent, Jharkhand 40.3 percent, Uttarakhand 39.6 percent, MP 38.3 percent]. This implies that there is extreme concentration of poverty in the economically backward states and more efforts to improve their condition are needed to be focussed in these states.

Disparities in Human Development: In terms of human development indicators, there are considerable variations across states in India. For instance, Kerala is the best performer (with a literacy rate of 93.9 percent, female literacy rate of 92 percent and infant mortality rate of 12), but at the other end of the position are the worst performers like Bihar, Rajasthan, Haryana, MP and Assam.

Inter-State Disparities in Agricultural Development: Another important indicator of regional disparity is the differences in the levels of development of agriculture among the different states of the country. States like Punjab, Haryana and part of Uttar Pradesh have a high rate of agricultural productivity. This is to say the adoption of High Yielding Varieties (HYVs) of seeds in agriculture has aggravated regional disparities.

Disparities in Industrial Development: There has been substantial regional concentration of industries in the four industrially advanced states of Maharashtra, Gujarat, Karnataka and Tamil Nadu. The uneven pattern of distribution of industries needs to be bridged by special initiatives like resource transfer, specific area development programmes, concessional finance, etc.

Disparity in Growth Performance: The different states in India are classified into three groups viz. high income states, middle income states and low income states. The relative positions of the states are determined by averaging their per capita real SGDP over the period 1981-2008.

With the removal of controls and the opening up of the economy, the pressure of market forces has exacerbated the inter- and intra-state disparities. The role of the centre in promoting equity among states and regions has, therefore, assumed added importance in the post-liberalisation period. The policies of the government have been reoriented with the aim of achieving faster and more inclusive growth. Towards this end, endeavours to channelise funds into sectors and areas which need special attention under different programmes and schemes are being made.

3.5 INCREMENTAL CAPITAL OUTPUT RATIO (ICOR)

Allocation of resources is one of the central problems faced by all economies. Establishing efficient criteria for investment of a nation's resources is crucially important in this regard. One of the most traditional investment criteria is the use of the capital-output ratio. A variant of this is the incremental capital-output ratio (ICOR). ICOR indicates the additional unit of capital or investment required to produce an additional unit of output. The rate of savings is taken as the investment made to work out ICOR. Thus, ICOR = (investment share in GDP) ÷ (rate of growth of GDP). That is: ICOR = S / G, where S is the savings rate and G is the growth rate.

The Harrod-Domar model focuses on ICOR as one of the two central parameters in determining the rate of economic growth. More specifically, G = S/ICOR. The lower the ICOR, higher is G. Conversely, the higher the *ICOR*, lower is the rate of growth or the lower is the productivity of *capital. Savings (S) is taken as equal to Investment (I).*

In the Indian case, analysis of data for the period beyond 2012-13 reveals two trends. First, there has been a decline in investment rate. Second, the decline in growth rate is greater than the decline in investment rate indicating a rise in the incremental capital-output ratio (ICOR). The rise in ICOR can be attributed to the delay in completion of projects or the lack of complementary investments. In some cases, it can also be due to non-availability of critical inputs. The delay in completion of projects can be due to internal reasons as well as policy constraints.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) To what extent the income (NI) from agriculture has declined over the period 1951-2011? What are the shares of gain by the industrial and services sectors out of this decline?

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2) What factors have contributed to the significant expansion of services sector during the period 1951-2011?

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3) To what reasons the stagnancy in the industrial expansion of India during the post-1991 years is attributed?

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4) What has been the trend in 'savings' in recent years in India? What has been the corresponding trend in 'investment'? Is there a significant gap between the two and if so how it possibly is bridged?

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5) What has been the rate of expansion in the industrial sector in the post-2000 years in respect of employment?

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6) Do you consider the structural shift in the decline of agricultural employment by 21 percent over the period 1951-2011 significant? Why?

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7) What is the increase in the proportion of urbanisation over the period 1961 to 2011? What is its distribution over the pre-reforms and the post-reforms decades?

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8) State two reasons as to why disparities between regional development have remained.

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9) What are the factors that merits to be focused upon while striving to reduce regional disparities in growth and development?

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10) How is ICOR defined? In what way it is important in economic developmental planning?

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11) If the savings-investment rate is given as 36 percent and the targeted economic growth rate is fixed at 6 percent, what is ICOR? Next, if the ICOR is lowered by 2 percent, then what would be the expected growth rate for the economy?

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3.6 LET US SUM UP

Structural change refers to major shifts in the relative shares of employment and income between sectors of an economy. Such structural changes are expected to result over a long term horizon. In particular, the share of agricultural sector, which will be high at low levels of development, is transferred to the other two sectors viz. the industrial and the tertiary or services sectors. However, the transformation can sometimes take place without the industrial sector expanding as much as the services sector. Although this has not happened in many of the developed economies, it had been pointed out to be the case for India. This perception is not really the case as noticed by the data for the post-2000 years in which out of a total of 11 percentage points yielded by the agricultural sector in respect of its employment share, a major part of 8 percentage is accounted for by the increased employment share in industries with the remaining 3 percent accounted for by the services. Significantly, in the entire 5 decade period before the year 2000 i.e. from 1951-2000 also there had been a shift in agricultural employment by the same 10 percent (i.e. from a high of 70 percent in 1951 to 60 percent in 2000). Also, notably, considering only the employment in the rural sector, there has been a corresponding 10.5 percent decline in the share of agriculture sector employment. The trend supports the hypothesis of labour transfer through non-agricultural or non-farm sector growth in rural areas. The change in income profile shows a drastic decrease in the contribution of agriculture to GDP (from 53 percent in 1951 to 14.5 percent in 2011). The corresponding increase for the industrial sector is from 17 to 28 percent (i.e. 11 percentage points) and for the services sector from 30 percent to 58 percent (i.e. 28 percentage points). A consequence of structural change is the increased share of urban population in relation to the rural population. This change is seen to be a modest 13.2 percent increase i.e. from 18 percent in 1961 to 31.2 percent in 2011.

3.7 SOME USEFUL BOOKS

1) Athukorala P & Sen K (2002). *Saving, Investment, and Growth in India*, Oxford University Press, New Delhi.
2) Bhattacharya, B. B. & Sakthivel S. (2004). 'Regional Growth and Disparity in India: Comparison of Pre and Post-Reform Decades', *Economic and Political Weekly* 29(10), 6 March.
3) Cairncross, A.K. (1970). The Capital – Output Ratio in Stephen Spiegelglas and Charles (Ed.), Economic Development: Challenge and Promise.
4) Joshi, Vijay and I.M.D. Little (2005). *India, Macro Economics and Political Economy I964 to 1991*, Oxford University Press, New Delhi.
5) Papola & Sahu (2012). *Growth and Structure of Employment in India: Long Term and Post-Reform Performance and the Emerging Challenge*, ISID, New Delhi.
6) Rangarajan C, Seema and E. M. Vibeesh (2014). 'Developments in the Workforce between 2009-10 and 2011-12', *Economic and Political Weekly*, vol. XLIX (23).

3.8 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Structural change refers to transfer of benefits of economic growth to the lower sections of the population in terms of increase in their income and employment levels. Changes in the relative shares of urban to rural (or increased urbanisation) is a consequence of structural change in the economy.
2) No. An economy can diversify its agricultural sector to 'agriculture and allied' activities inclusive of animal husbandry to attain a developed status.
3) For affording temporal comparison of growth profiles. In its absence, the changing levels of prices during the period remains unaccounted for.
4) The failures are attributed to the wars fought and droughts experienced.
5) The global slowdown and the poor monsoon coupled with slow pace of reforms.
6) No. The period was also marked for intermittent political instability in the country.
7) Yes. The long term growth rate in India's NI has steadily grown consistently from 4 percent during 1951-1979 to 6 percent during 1980-97 and to 7 percent during 1997-2017.

Check Your Progress 2

1) Decline in agricultural sector's share is to a tune of 39 percent. Corresponding share of industry has increased by 11 percent and 28 percent by the services sector.
2) Demand for many constituents of services sector, developments in IT sector, etc.
3) Migration of workers and change in demand patterns for services.
4) Domestic savings has declined in recent year to touch 19 percent in 2015. Investment, however, have appreciated to 35 percent average over 2008-13. FDI and foreign remittances have contributed to bridge the gap.
5) There has been a decline of 11 percent in agricultural employment in the 2000+ years. Out of this, 8 percent share is the increase in industries and 3 percent in services.
6) Yes. Although it was 10 percent only during the 50 year period up to 2000, the period was marked for turbulence in terms of initial planning period, wars, droughts, etc. The post-2000 years, was relatively a much better period.
7) 13 percentage points. 7.5 and 5.7 percents respectively.

8) Difference in adoption of progressive policies and capacity of state to take benefit from policies implemented.

9) Population below BPL, HD indicators, state of agricultural progress/ development, disparities in industrial development and growth performance.

10) ICOR is defined as the ratio of 'investment to targeted growth rate'. It is important to adopt policies to achieve the targeted growth rates for which ICOR can be focused upon particularly for deciding the desired labour and capital mix.

11) G = 36/6 = 6. G = 36/4 = 9 percent.

UNIT 4 RESOURCES AND CONSTRAINTS[*]

Structure

4.0 OBJECTIVES

After reading this unit, you will be able to:

- distinguish between natural resources and manmade resources;
- explain how resources serve to build infrastructure critical for economic growth and development;
- categorise the various factors of production playing a crucial role in building a strong infrastructural base;
- differentiate between physical infrastructure and social infrastructure;
- discuss the role of infrastructure in economic development;
- describe the state of infrastructure development in India; and
- outline the challenges/constraints for infrastructure development in India in terms of 'institutions and governance'.

4.1 INTRODUCTION

Natural resources, include all those objects and products which, combined with human labour, capital and enterprise, are used to produce goods and services. Natural resources are not static but dynamic in their nature i.e. they keep on changing with economic development. Resources are important for infrastructure development which in turn determines the potential for all

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round development i.e. growth and development of all the three primary sectors of the economy. Transport, communications and energy are the most important constituents of economic infrastructure. The different modes of transport that have evolved with a premium on greater speed, point out to how the world is positioned on the fast changing time-space-speed vectors. Distances are measured on the basis of speed and not in spatial terms. In all these, consumption of energy is the single most important parameter that distinguishes a developed economy from that of a developing economy. In this unit, we shall discuss the constituents of resources and infrastructure in the context of Indian Economy. The constraints to development, by a lack of infrastructure owing to inefficiencies in 'institutions and governance', would also be focused upon in the unit.

4.2 TYPES OF RESOURCES

A resource is a source or supply from which a beneficial good is produced. Typically resources are materials, energy, services, labour, knowledge and other physical assets. These are used in a mix to produce a beneficial good. In that process, some of the resources (called non-renewable or exhaustive resources) may be so consumed that, over time, they may become unavailable for future use. Resource are thus basically of two types – natural and manmade. Let us begin by distinguishing between these two.

4.2.1 Natural Resources

Natural resources are derived from the environment. Some of the resources are essential for survival, while others satisfy societal wants. Every man-made product in an economy is composed of natural resources to some degree. Natural resources are material provided by the nature using which man makes many other complex products called manmade products. Some examples of natural resources and the way in which we use them are given in Table 4.1.

Table 4.1: Types of Natural Resources

Natural Resource	Examples of Products or Services
Air	Wind energy
Coal	Electricity
Minerals	Coins, wire, steel, aluminium cans, jewellery
Natural gas	Electricity, heating
Oil	Electricity, fuel for cars
Sunlight	Solar power, photosynthesis
Water	Hydroelectric energy, drinking, cleaning

Source: http://study.com/academy/lesson/what-are-natural-resources-definition-lesson-quiz.html

Water Resource: Water is the most critical limiting factor for many aspects of life like: (i) economic growth, (ii) environmental stability, (iii) biodiversity conservation, (iv) food security and (v) healthcare. Humans at present are estimated to use about 54 percent of all accessible freshwater supplies in the world. By 2025, this share is expected to increase to 70 percent. This will have serious implications for all other forms of life including plants. The demand for fresh water is increasing to unprecedented levels because of: (i) population growth, (ii) increasing irrigation needs, (iii) rapid urbanisation, (iv) industrialisation and (v) increase in production and consumption. India is counted as one of the water hotspots in the world primarily because of the large population that has to be provided with food and drinking water. Per capita availability of water has gone down from 5000 M^3 (cubic meters) in 1951 to 1588 M^3 in 2010 in India.

Energy Resource: Energy resources are of two types: non-renewable and renewable. The most important non-renewable energy resources are fossil fuels such as coal, oil and natural gas. Energy is used in the industrial sector, transportation sector (which is the world's fastest growing form of energy use largely due to the rise in private cars) and residential and commercial sector (i.e. energy use in buildings, commerce, public services, agriculture and fishing). India is the fourth largest energy consumer in the world after China, US, and Russia. However, India's per capita energy consumption is 615 units compared as 6800 units in the US and 2030 units in China.

India is the third largest global consumer of coal and has the fifth largest coal reserves in the world. India does not have sufficient oil and hence imports 83 percent of her crude oil needs. India is the world's fourth largest oil importer after China, Japan, and the US. The government is forced to subsidise the price of energy products but of late it is trying to reduce such subsidies. About 25 percent of the population lack basic access to electricity while electrified areas suffer from intermitent electricity blackouts. The government is presently promoting renewable energy sources like wind farms, solar energy, hydropower and waste-to-energy projects.

Forest Resource: The economic benefits that mankind receives from forests are of two types: (i) direct use values like timber, fuel wood, edible plants, etc. and medicinal plants; and (ii) indirect use values such as the carbon absorption, provision of habitat to protect biodiversity, ecosystem protection services such as the ability to reduce soil erosion and the siltation of rivers. Some findings of the 'state of energy report' 2013 for India are: (i) forest and tree cover of the country is about 70 million ha or about 21 percent of the total geographical area; (ii) there is an increase of 5800 ha in the forest cover since the 2011 assessment; and (iii) the seven north-eastern states of India have nearly one-fourth of the country's forest cover.

Land: Though the global land area is less than a third of the earth's surface, it is vital for our existence because of its many resources and functions provided to mankind like: (i) biodiversity, (ii) water, (iii) carbon cycles, etc. The world's land surface is degrading continuously with increasing 'desertification' estimated at 23 percent of all usable land having become degraded. The main causes of degradation are: (i) deforestation, (ii) overgrazing, (iii) mismanaged agriculture, (iv) unplanned industrialisation and urbanisation, etc. The total land area in a country is set in its definite limits within which the process of economic development needs to be organised. With increasing world population, there will be intense pressure on land. The pattern of land utilisation in India is indicated in Table 4.2. The available land, on the basis of its use, is classified into two types viz. (i) agricultural land and (ii) non-agricultural land.

Table 4.2: Land Utilisation in India

(in sq. kms.)

Items of Classification on Utilisation	1950-51	Percent	2014-15	Percent
Geographical Area	328726	-	328726	-
Reporting area for land utilisation statistics	284315	100	307818	100
Forest	40482	14	71794	23
Barren Land	47517	17	43880	14
Other uncultivated land excluding fallow land	49446	17	25832	8
Fallow Land (uncultivated land in-between cultivated land)	28124	10	26182	9
Net Area Sown	118746	42	140130	46

Agricultural land includes net sown area and current fallows. Agricultural land in India (in 2014-15) is thus about 55 percent of the total geographical area. Because of the large population of the country, the per capita arable land (i.e. land suitable for agriculture) is low at 0.16 hectares against the world average of 0.24 hectares. Non-agricultural land includes: (i) land under forests, (ii) land under non-agricultural use (e.g. towns, villages, roads, railway, etc.) and (iii) land classified as non-cultivable waste, barren land and uncultivated land in mountains and deserts.

4.2.2 Man-made Resources

Man-made resources are goods and services produced by using the resources gifted by nature. Sometimes, resources become useful to man only when their original form is changed. Such goods do not occur naturally but have to be produced for consumption by mankind (i.e. humanity). Some man-made resources like medicines are very essential to modern human life as without medicines like vaccines people would become sick and die. However, some manmade resources like pesticides could harm natural environment if not scientifically used.

Some man-made resources are like natural resources. For instance, lakes and ponds are man-made resources. While the water and fish in them are natural resources, the impoundment is by human effort. Such resources generate food, income and recreation opportunities for many people. Likewise, farms are also man-made resource using plants and soil available from nature. Some other man-made resources like paper are often combined to form other resources like books and plates. High-tech products like wires and semiconductors are other goods made for mankind's use. Examples of other man-made resources, are hospitals, research centers, educational institutions, etc. These serve as resources for community development. Taken together, they become infrastructure which forms the backbone for economic growth and development.

4.3 INFRASRUCURE

Infrastructure covers those supporting services that help the growth of productive activities like agriculture and industry. Though the concept of infrastructure has been extensively used in the literature on economic development, a precise and generally acceptable definition of the term infrastructure is still elusive. The provision of quality and efficient infrastructure services is indispensable to realise the full potential of the growth impulses surging through the economy. Professor V.K.R.V Rao made an exhaustive categorisation of factors of production that constitute infrastructure, and the activities/sectors that are integral in their making, as follows.

Transport: roads, railways, shipping ports and harbours, airports, transport equipments.

a) **Communications:** posts, telegraphs, telephones, radio, TV, cinema.

b) **Energy:** coal, electricity (hydro, thermal, nuclear), wind, solar, oil, gas, biogas.

c) **Intermediate Goods Output:** minerals, steel, basic chemicals, fertilisers and pesticides, machinery and machine tools.

d) **Productivity of Natural Resources:** reclamation of lands, irrigation (major, medium, minor) drainage, contour bunding and land reshaping, consolidation of holdings, high yielding bovine varieties, fishing boats, fishing equipments and refrigeration, afforestation and development of commercial forests.

e) **Science and Technology:** teaching, basic and applied research, national laboratories, liaison with production units.

f) **Information System:** mass media, libraries and museums, fairs and exhibitions, books and journals.

g) **Finance and Banking:** savings institutions (in public, private and cooperative sectors), credit and lending institutions (in public, private and co-operative sectors), capital market.

h) **Human Resource Development:** drinking water, disease eradication, public hygiene, family planning, medical facilities; education – literacy, schools, colleges and universities, professional education, technical and industrial schools, development disciplines.

Economic development of a country depends very much upon the availability of its infrastructural facilities particularly the development of sectors such as agriculture, industry and services Sectors. An economy's infrastructure is broadly divided into two types – physical infrastructure and social infrastructure. Infrastructure are also classified based on the purpose of uses viz. (i) 'hard' and 'soft' infrastructure, (ii) rural and urban infrastructure and (iii) institutional and non-institutional infrastructure. **Hard infrastructure** is defined as the physical infrastructure like roads, bridges etc. while the soft infrastructure refers to human capital and the institutions that are required to maintain the economic, cultural and social standards of a population.

4.3.1 Physical Infrastructure

Physical infrastructure is directly related with the production sectors like agriculture, industry and trade. It includes services like power, irrigation, transport and telecommunication. Performance of physical infrastructure in Indian economy has been mixed and uneven. Over the years, India's 'soft infrastructure' has grown faster. In contrast, the expansion and performance of the 'hard infrastructure' have been modest considering the country's population density.

4.3.2 Social Infrastructure

Social infrastructure comprise of education, health and medical care, nutrition, housing and water supply which are instrumental in contributing to improvements in human development, which in turn, accelerates economic development. Human Development is the process of widening people's choices and their level of well-being. The choices change over time and differ among societies according to their stage of development. The three essential choices for people are – to lead a long and healthy life, to acquire knowledge and to have access to the resources needed for a decent standard of living.

The term 'social infrastructure' is used to refer to the 'overhead facilities' (i.e. not linked to production) which contributes to improving the quality of labour productivity in production. It includes education, health, housing, etc. Social infrastructure is vital in human capital formation while physical infrastructure builds up the material capital. Given that human capital plays a very important role in the process of economic development, expenditure on social infrastructure is regarded as investment rather than consumption. Both the economic and social infrastructure are equally important for carrying out economic activities efficiently. The distinction is merely on the difference in their content and not on their role or importance.

Endogenous growth theory argues that both poor physical infrastructure and human capital constrains economic growth. For instance, Hall and Jones (1999) argue that international differences in levels of output per worker are determined by differences in human capital and in physical and social infrastructure. Wagstaff (2002) notes that up to 1.7 percent of annual economic growth in East Asia between 1965 and 1990 could be attributed to improved investment in social infrastructure i.e. public education and health.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) State the different types of natural resources with illustration of each one to produce a manmade resource.

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2) State the five most important aspects of life which critically depend on water. To which factor is the continued increase in the use of available water on the planet attributed?

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3) How is the 'infrastructure' defined? Give examples of its constituents?

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4) State the nine constituents of infrastructure as categorised by Prof. V. K. R. V. Rao.

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5) Distinguish between physical and social infrastructures.

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6) What does the endogeneous growth theory recognise as the basic constraints for economic development? What do the individual contributors say in this regard?

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4.4 ROLE OF INFRASRUCTURE IN DEVELOPMENT

The primary objective of every nation is to strive for the fulfilment of the basic needs of its population. For this, it can raise the required resources only by achieving higher GDP growth rates. This will help the country to invest in its infrastructure development which in turn attracts other countries to invest by way of FDI. Infrastructure thus contributes greatly in fulfilling the basic objective of achieving higher growth. Physical infrastructure directly supports economic growth while social infrastructure does it indirectly by improving the quality of living standards of the community. More specifically, the role and contribution of infrastructure to development can be identified as follows.

- First, physical infrastructure not only contributes to enhance productivity but also assists in the realisation of the potential ability of human capital i.e. it creates situations in which the potential can fully unfold. It also directly and indirectly contributes towards improving the quality and safety of people's lives.
- Second, the nature and rate of growth of infrastructure determines the course of development of a country in terms of: (i) diversification of production and expansion of trade; (ii) control of population growth; (iii) alleviation of poverty; and (iv) protection as well as improvement of conditions of environment. It is estimated that a 1 percent increase in the stock of infrastructure is associated with a 1 percent increase in GDP of a country (WDR, 1994). An important ingredient in China’s success with rural enterprise has been a package of transport, telecommunications and power at the village level. The elements of ‘physical infrastructure’ provide a series of externalities. For instance, use of electricity helps in the dynamic transformation of all types of production units, growth of transport and communications paves the way for commercialisation of agriculture and trading activities besides helping increase the mobility of labour across sectors within a country.
- Third, education and health – which are the main constituents of social infrastructure – contribute to economic development by human capital formation. Effective education of the masses (i.e. universal elementary

and middle level education) is crucial for reducing poverty and sustaining higher rates of economic growth over long periods of time by establishing a skilled labour force base.

- Fourth, the elements of 'financial infrastructure' consisting of money and capital markets supply short, medium and long term credit to different sectors of the economy. In particular, while the commercial banks mobilise savings and provide short term credit, the development banks do the same by providing long term credit to agriculture and industry.
- Fifth, infrastructure services that help the poor also contribute to environmental sustainability. For instance, clean water and sanitation, non-polluting sources of energy, safe disposal of solid waste, better management of traffic in urban areas, etc. provide environmental benefits for all sections of the people. The urban poor often directly benefit from good infrastructure services because they are concentrated in settlements with unsanitary conditions, hazardous emissions, and accident risks.
- Sixth, infrastructure is very much important in development of tourism. However, in areas which attract tourists for natural scenery (such as hilly areas, sea-costs, forests, etc.), development of physical infrastructure needs to be done in a way that environmental concerns are duly protected.

The technological revolution achieved in the fields of telecommunication and use of satellites has radically improved the system of information in all spheres of life. We should properly use it as an important element of infrastructure. Further, development of suitable institutional arrangements for the maintenance of infrastructure like the basic needs of civic life with proper systems of water supply, sewerage, roads, conservancy services, etc. also needs to be focused upon so as to duly benefit from infrastructure development.

4.5 INFRASTRUCTURAL DEVELOPMENT IN INDIA

The transport system is dependent on complementary supporting services. The different modes and services on which the broad transport system depends are: railways, roads, ports, inland water transport, coastal shipping, airports and airlines. Railways and roads are the dominant means of transport in India carrying more than 95 percent of total traffic. Although other modes such as coastal shipping and inland water transport also play a crucial role, railways and roads dominate the transport landscape in the country. It is important to foster the development of various transport modes so that they together lead to an efficient, sustainable, safe, and regionally balanced transportation system in an integrated manner. The liberalisation of the economy has instilled the urgency of recognising the necessity of an efficient transport system for increasing productivity and, in the process, enable the country to compete effectively in the world market. Adequate and reliable transport infrastructure (and services) are important in contributing to enhance the ability of the country to increase its international trade and attract foreign direct investment.

Road Network: India's road network consist of: (i) national highways (NH), (ii) state highways (SH), (iii) major district roads (MDRs), and (iv) rural roads (RR) including other district roads and village roads. The NHs (with a total length of about 66,600 km) comprise about 20 percent of the road network and carry 40 percent of the road traffic. SHs (with a length of about 1.37 lakh km) and MDRs (with a length of 3 lakh km) together constitute the secondary system of road transportation contributing significantly to the development of the rural economy and industrial growth of the country. The secondary system also carries about 40 percent of the total road traffic. Rural Roads (comprising the large residual of 28 lakh km length), hold the potential to provide the vitally needed rural connectivity for generating higher agricultural incomes and productive employment opportunities besides promoting access to economic and social services. In order to improve the road network, besides speedy implementation of projects like the Golden Quadrilateral (GQ) and the North-South and East-West (NS-EW) corridors, addressing the deterioration in large stretches of NHs, SHs, etc. needs to be accorded high priority.

Ports: Ports constitute the inter-modal interface between maritime and land (road and rail combined) transport. India has a coastline of around 7,500 km with 12 major ports and 187 non-major ports (i.e. notified minor/intermediate) along its coastline and sea islands. Almost 95 percent by volume and 70 percent by value of India's global merchandise trade is carried through the sea route. Overseas cargo accounts for about 77 percent of the total cargo handled at Indian ports.

Air Transport: India's relatively decent performance in roads and railways by international comparisons is partly because other countries (such as in East Asia, BRCS, and, especially, developed countries) make much greater use of air transportation. This is evident from the data on air transport in India where only 58 persons per 1,000 people travelled (in 2012) by air compared to 201 in China, 333 in BRCS countries, 490 in East Asia and a huge 1480 in the developed countries. In terms of air freight transportation, India's volume (in terms of 1,000 ton-km per 1,000 people) was only 1.4 (in 2012) compared to 13 for China, 18 for BRCS countries, 80 for East Asia and a huge 111 in developed countries.

Electricity: Electricity is a very important form of energy used in homes, offices and industry for enhancing production, efficiency and productivity. Lack of access to electricity seriously affects output and productivity. In India, only 75 percent of people have access to the electricity network. This compares to 86 percent for the East Asian countries, 94 percent for the BRCS countries and almost 100 percent for China and the developed countries. Compared to India's level, the per capita consumption of electricity is about 5 times higher in China, 6 times higher in East Asia, 7.5 times higher in BRCS countries and 15 times higher in the developed countries.

Banking System: The banking system comprise of different kinds of banks of which the scheduled commercial banks (SCBs) are the most important in terms of reach and scale of activities. The SCBs are further categorised as public-sector banks, foreign banks, private banks and regional rural banks.

Private banks like the ICICI Bank and HDFC Bank have private ownership and management. Foreign banks operate either through a fully-owned subsidiary or branches of the parent bank registered outside India. Their operations are generally restricted to tier-1 cities.

Information and Communication Technology (ICT): Access to ICT is crucial for productivity enhancement where the younger generation's exposure to ICT help them to prepare for more productive jobs. Access to ICT is measured in terms of number of telephone and internet subscribers per 1,000 persons, number of computers per 1,000 persons, and per capita expenditure on telephone, Internet, etc. Latest available data for comparison purposes (for 2012) shows that per 1,000 inhabitants, there were 690 cellular phones in India. This was 810 in China, 1,186 in East Asian economies, 1,312 in BRCS countries and 1,153 in developed countries.

Social Infrastructure: The two major components of social infrastructure are education and health. The different levels of education are primary, upper primary, secondary and higher education. Their parallel in the health infrastructure comprise of Community Health Centres (CHCs), Primary Health Centres (PHCs) and Sub centres (SCs) at the grass roots level.

In April 2010, the Right to Education (RTE) Act was passed in India. With this, the universalisation of primary education (standards one to eight) received a new impetus. The Act makes education a fundamental right of every child between the ages of 6 and 14 and specifies minimum norms in primary education. It requires all private schools to reserve 25 percent of seats for poor children and prohibits taking donation or capitation fees. The emphasis in recent times is on enhancing supply and increasing access to higher education. Consequently, the 'gross enrolment ratio' (GER) for higher education (both degree and diploma programmes) in India, expressed as a percentage of population in the eligible age cohort of 18-23 years, has increased from 13 percent in 2007-08 to 18 percent in 2011-12. Vocational education and training (VET) consists of practical courses through which one gains 'skills and experience' directly linked to a career and employment opportunities. These training courses are parallel to other conventional courses of study (like B.Sc., M.Sc., etc). However, considering the huge labour force entering the job market every year and the high unemployment rates, besides the low employability levels of graduates from different programs, VET (except in computer-related courses) is underdeveloped in India. Among the BRICS economies, the percentage of students in upper secondary education enrolled in vocational education in 2013 were: Russia: 60 percent, China: 48 percent, South Africa: 14 percent, Brazil: 8 percent and India: 2 percent.

Health: Since independence, India has built a huge health infrastructure in the form of primary, secondary and tertiary healthcare institutions. Under this, government hospitals include healthcare centres, district hospitals and general hospitals while private hospitals includes nursing homes and super-speciality hospitals in cities. In India, private healthcare expenditure accounts for nearly 74 percent of the country's total healthcare spending (IBEF, 2017). The share of private sector in hospitals and hospital beds is 74 percent and 40 percent respectively. There is a growing demand for healthcare due to: (i) rising incomes and affordability; (ii) growing elderly population; (iii) changing disease patterns; (iv) rise in medical tourism; (v) better awareness; and (vi) preventive and diagnostic care. However, the average (per 1000 persons) number of medical professionals is very low in India: 0.7 physicians, 1.5 nurses and number of hospitals is 1 whereas the world average for these are respectively 2.5, 2.5 and 2.9.

4.6 INSTITUTIONS AND GOVERNANCE

Good governance focuses on well regulated administration of efficient and effective co-existing public and private sector managed institutions. It encompasses the legal frameworks for competitive functioning, accountability of public officials, transparency in governance procedures, freedom of information, access to citizens, participatory governance by the public through a major role for civil society, etc. The relative role of the public and private sectors in providing infrastructure will therefore vary depending upon the state of development in each one of these constituents. In some sectors such as irrigation and water resources management, construction of rural roads, developmental investment in economically or situationally disadvantaged regions, etc. the bulk of the initiative for investment in infrastructure development have to be from the public sector. Available public sector resources must therefore be directed to such sectors of priority. Precisely for this reason, PPPs need to be seriously explored in other areas. Major Challenges to Infrastructure Development in India can be stated as follows.

Land Acquisition: There are multiple challenges to infrastructure development of which 'land acquisition' is the single largest roadblock for the development of infrastructure. Several projects have been stalled or delayed due to land acquisition issues. There are multiple reasons that lead to delays in land acquisition like statutory clearances, public agitations, disputes, etc., as it invariably requires an amendment to existing land usage provisions.

Delay in Regulatory and Environmental Clearance: There are various categories of approvals required across the project cycle at every stage, right from the pre-tendering stage to post-construction. For instance, at the pre-tendering stage, there are substantial delays in inviting bids. Further, approval is required from multiple layers of the government at the central, state, and local levels, from a number of regulatory bodies like National Green Tribunals, Environmental Pollution Control Authorities etc.

Water Issues: Increased demand for water from all sectors and a lack of a rational water pricing policy has impacted the demand for water adversely. Widespread unscientific usage of groundwater resources and inefficient management of conflicts between states has adversely impacted the development of agricultural sector in particular.

Modernisation of Ports: Despite the immense potential for modernisation and growth of Indian ports, the government has not been able to modernise even the major ports. Compared to the large international ports, India lags behind badly. Major contributors to this state of Indian ports are political pressure, (many a time based on traditional rights of fishing communities living in the coastal areas) lack of autonomy, absence of incentives, excessive bureaucratic and hierarchical rigidities.

Vocational Education: There is an urgent need to expand vocational training in India making it oriented to current labour market needs. As the Indian economy becomes increasingly knowledge based, new and revised courses that fulfil the requirement of modern industries become imperative. Thus, the private sector, which is more adaptable in this respect, should be allowed and supported to play a larger role. Public–private partnership can be a good option in this respect. In addition to the degree and diploma programmes in vocational courses, there is a need for shorter and informal training facilities.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) In what respects 'infrastructure' determines the course of development of a country?

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2) In what way 'infrastructure services' help the poor to contribute to environmental sustainability?

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3) What is the estimated share of private healthcare expenditure in India? What factors have contributed to such a huge share of private healthcare in India?

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4) What are the constituents of 'good governance'?

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5) What are the major constraints to 'infrastructure development' in terms of good governance and institutions in India? In particular, what factors are identified to come in the way of modernisation of ports/airports?

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4.7 LET US SUM UP

It is important to sustainably use the available natural resources from which many modern day needs of man-made resources are produced. This is imperative in the context of 'infrastructure development' which depends upon the availability of both the natural and the man-made resources. There is thus a close link between the availability of resources and the development of infrastructure in a country. There are two constituents of infrastructure namely the physical infrastructure and the social infrastructure. The former includes: roads, ports, air transport, energy, banking and financial services, ICT, etc. The latter covers the two major constituents of education and health. It is important that good institutional framework with an efficient governance system prevails in a country in order to support the infrastructural development of the economy. Governance and institutions is a broad term encompassing the legal framework for the rule of law (including the accountability of public officials and transparency in government procedures), right to information of citizens, participatory governance by the civil society, etc. In India, the development of infrastructure is hindered by many constraints. Some of these are: land acquisition, delay in regulatory and environmental clearance, water issues, development of ports and airports, vocational education, etc.

4.8 SOME USEFUL BOOKS/REFERENCES FOR FURTHER READING

1) Agrawal, P. (2015). *Infrastructure in India: Challenges and the Way Ahead,* Institute of Economic Growth, IEG Working Paper No. 350.

2) IBEF (2017). Health Care, https://www.ibef.org/download/Healthcare-January-2017. pdf

3) Rajagopalan, R. (2015). *Environmental Studies: from Crisis to Cure* (No. Ed. 3). Oxford University Press.

4.9 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Air, coal, minerals, natural gas, oil, sunlight and water. See Table 4.1 and answer.

2) Economic growth, environmental stability, biodiversity conservation, food security and healthcare. The factors are: population growth, increasing irrigation needs, rapid urbanisation, industrialisation and increase in production and consumption.

3) Those man-made resources which are important for community and economic development (e.g. paper, books, semiconductors, hospitals, roads & bridges, educational and research institutions) are compositely termed as 'infrastructure'.

4) Transportation, communication, energy, intermediate goods output, productive manmade natural resources, S & T, information systems, finance & banking and all HRD components.

5) Physical infrastructure comprise of power, irrigation, transportation and telecommunication. Social infrastructure comprise of education, health and medical care, nutrition, housing and water supply.

6) Poor physical infrastructure and human capital constraints (Sub-section 4.3.2).

Check Your Progress 2

1) In terms of: (i) diversification of production and expansion of trade; (ii) control of population growth; (iii) alleviation of poverty; and (iv) protection as well as improvement of conditions of environment.

2) Clean water and sanitation, non-polluting sources of energy, safe disposal of solid waste, better management of traffic in urban areas, etc. provide environmental benefits besides contributing to maintaining environmental quality.

3) This is estimated to be 74 percent of the total spending. Factors contributing to this are: rising incomes and affordability; growing elderly population; changing disease patterns; rise in medical tourism; better awareness; and preventive and diagnostic care.

4) Legal frameworks for competitive functioning, accountability of public officials, transparency in governance procedures, freedom for information access to citizens, participatory governance by the public through a major role for civil society, etc.

5) Land acquisition, delay in regulatory and environmental clearance, slow resolving of inter-state water issues, modernisation of sea ports and airports and vocational education. Factors of impediment are: political pressure, lack of autonomy, absence of incentives, excessive bureaucracy and hierarchical rigidities.

BLOCK 2

POPULATION AND HUMAN DEVELOPMENT

BLOCK INTRODUCTION

Block 2: Population and Human Development

Block 2 of this course is on ‘Population and Human Development’. This block has three units. The units are devoted to the themes of demography, education, health and nutrition. It thus deals with the social sector of development.

Unit 5 is on ‘**Demographic Features**’. The unit discusses the growth in population over the decades. Changing trends in fertility and mortality rates are explained. The issue of demographic transition is then discussed in terms of urbanisation, sex ratio, population pyramid and dependency ratio. The concept of ‘population ageing’ with reference to demographic dividend and National Population Policy is also presented in the unit.

Unit 6 is on ‘**Education Sector**’. The unit begins with a distinction on ‘human capital’ and ‘human development’. The status of ‘education sector’ in India is explained by ‘level of education’ and ‘gender and quality’ dimensions. The issue of ‘financing of education’ is discussed with reference to ‘public expenditure on education’ and ‘alternative sources of funding’.

Unit 7 is on ‘**Health and Nutrition**’. The unit begins with an outline on the concepts of ‘measurement of health and nutrition’. Issues of sources of health expenditure, public healthcare system in India and the National Health Policy are discussed in the unit.

UNIT 5 DEMOGRAPHIC FEATURES*

Structure

5.0 OBJECTIVES

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

- define the concepts of 'Density of Population' (DoP) and 'Growth of Population' (GoP);
- state the basic demographic equation of 'Vital Statistics' with a specification of its main constituents;
- explain the different types of 'fertility' and 'mortality' rates along with their merits and demerits;
- analyse the trends in 'demographic transition' in India;
- outline the concepts of 'population ageing' and 'demographic dividend; and
- indicate the objectives and achievements of NPP, 2000.

5.1 INTRODUCTION

Demography means 'the scientific study of human population, with respect to size, structure and development'. The study of Demography is important

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* Prof. Sumanash Dutta, Assam University.

since human population in terms of its structure, composition and growth, has significant bearing on economic growth and development. Population is the only and ultimate source of labour supply for development activities. It is also the ultimate beneficiary of development. Hence, population is both the means and the end of economic development. In India, the Demographic data is available in the Census Reports which is conducted every once in ten years. The last such census was conducted in the year 2011. The present unit delves into the important demographic features of India.

5.2 POPULATION OF INDIA: SIZE AND GROWTH

India's population, as per the 2011 census, was 1211 million (a million is equal to 10,00,000 i.e. 10 lakhs). Stating the figures in millions, it was 1029 in 2001, 846 in 1991, 683 in 1981, 548 in 1971, 439 in 1961 and 361 in 1951. At present, India is the second most populous country after China. As per the World Bank data (for 2016), China's population is 1359 million and India's population is 1324 million. However, the geographical area of India, in terms of square kilometres, is much smaller than that of China. The demographic measure that accounts for number of people per square km of land area is called the Density of Population **(DoP)**. It is measured as:

$$\boldsymbol{DoP} = \frac{\text{Population of a Geographical Area}}{\text{Land Area in Sq. Km of that Geographical Area}}$$

As per 2011 Census Report, DoP of India is 382. As per World Bank data, for 2016, the DoP of India is 445, of China 147, USA 35 and Australia 3.

The figures show that amongst these countries, India is the most thickly populated country. The figures also point out that the population of the world is not distributed uniformly across the regions. This is true within India also. Some states of India are densely populated whereas others are relatively sparsely populated. The states of Bihar (1106), West Bengal (1028), Uttar Pradesh (829) are densely populated. On the other hand, the states of Himachal Pradesh (123), Sikkim (86), Mizoram (52) and Arunachal Pradesh (17) are sparsely populated. Broadly speaking, territories with Mountains, hills, deserts and large dense forest areas are sparsely populated whereas territories having fertile land, industries, better transport facilities, etc. are densely populated.

5.2.1 Growth of Population

The size of the population of a given area changes over time through: (i) migration and (ii) natural factors like *births and deaths*. The change in the size of population over time, expressed as a percentage to its base year value, is called the growth of population. Thus, the rate of growth of population (or simply the growth rate) is estimated as: Rate of Growth of Population **(RGP)** = $\frac{P_{t+1}-P_t}{P_t} \times 100$ where, P_t is the size of absolute population at time point 't' and P_{t+1} is the size of absolute population at time point 't+1'. The growth rate of the population is expressed in percentage.

The population in India was 1028.5 million in 2001; it increased to 1210.6 million in 2011. The Rate of Growth of Population over the period 2001 to 2011 is 17.7 (or 18) percent. However, when the decadal rate of population growth is divided by 10, we get the average annual growth rate of population which in the present case is 1.8 percent. The rate of decadal growth of India's population increased from 22 percent in 1951-61 to 25 percent in 1961-71. After that, it has been declining steadily at a very slow pace at first but at an accelerated rate since 1991. The growth rate of population, as per 2011 census, is not uniformly the same across the states of India. Some states have exhibited higher average annual growth rate than the national growth rate. For instance, Meghalaya (2.8 percent), Bihar (2.6 percent), Arunachal Pradesh (2.6 percent), Jammu & Kashmir (2.4 percent), Rajasthan (2.2 percent), etc. The lowest growth rate is in Nagaland (– 0.6 percent).

5.3 VITAL STATISTICS

To understand the population dynamics, it is important to study the birth (fertility) rate, death (mortality) rate and migration pattern along with their methods of measurement in a scientific way. The basic demographic equation is:

$$P_{t+1} - P_t = (\text{Births} - \text{Deaths}) + (\text{In} - \text{Out})$$

i.e. Population Change = Natural Growth of Population + Net Migration.

Vital Statistics deals with the two demographic fundamentals i.e. births (fertility) and deaths (mortality). It is also concerned with migration, marriage, longevity, etc. In this section, we shall discuss four types of fertility and four types of mortality rates.

5.3.1 Fertility Rates

The four important types of fertility measures are: (i) crude birth rate (CBR), (ii) general fertility rate (GFR), (iii) age specific fertility rate (ASFR) and (iv) total fertility rate (TFR).

Crude Birth Rate (CBR): The Crude Birth Rate (CBR) in an area, in any year (or time) is defined as the number of live births in that area in that year or time per thousand population. Thus, CBR = $\frac{B}{P} \times 1000$, where B is the total number of live births registered in a defined geographical area (or a social group) within a time frame (usually a complete year) and P is the mid-year population in the defined space and time. Trend in CBR in India shows that the CBR has come down from 40 during 1941-51 to about 26 in 1991-2001 and about 22 in 2011. The main reasons for the decreasing trend in CBR in India are: (i) the promotion of family planning programmes by government, (ii) spread of literacy and increase in education level of people, (iii) increasing awareness among the people of the benefits of adopting a small family norm, (iv) more participation of women in paid work and (v) increasing opportunity cost of child bearing and rearing for women. The CBR in India compares to about 14 in U.S., 12 in China and 9 in Japan. Thus, compared to developed countries, CBR in India is high. The major factors responsible for this are: (i) high infant mortality rate; (ii) strong preference for a son; (iii) high economic value of children in traditional agrarian society; (iv) lack of knowledge about family planning and contraception; (v) low age at marriage and polygamy; (vi) low education of parents; and (vii) religious norms and practices.

Merits and Demerits of CBR: CBR is easy to understand and estimate. CBR can reasonably compare well the birth rates at two not very distant points of time of the same region since the age and sex distribution of population generally do not change in short term. CBR takes into consideration the total population almost half of which are males who are not directly involved in child birth. Moreover, only a restricted segment of women population (15-49 year) has the ability of child bearing.

General Fertility Rate (GFR): GFR is the number of births per year per thousand women of childbearing age (aged 15-49). It is computed as: GFR = $\frac{B}{\sum_{x=15}^{x=49\,f} P_x}$ × 1000, where B refers to the total number of live births (as in CBR) and, $\sum_{x=15}^{x=49\,f} P_x$ refers to the mid-year population of women in the age group 15-49 which are generally considered as the two limits of the 'child bearing age' of women.

Merits and Demerits of GFR: GFR overcomes the crude approach adopted in case of CBR. It is more scientific since it considers total births with reference to women population of child bearing age only. The age of puberty is not the same for girls coming from cold, temperate and hot climatic regions. Therefore, before applying the formula, a judicious decision regarding the two limits of child bearing age of women is required to be decided. Moreover, fertility varies with age i.e. within the two limits of fertility span. Therefore, it is inappropriate to consider all women segment of age group 15-49 together.

Age Specific Fertility Rate (ASFR): The ASFR for any age group is the ratio of number of live births per woman to the mid-year female population of the particular age group. The ASFR is thus given by: ASFR = $\frac{B_x}{{}^f P_x} \times 1000$, where B_x is the number of live births given by women in the age group of x to x+1 and ${}^f P_x$ is the average size of the women population in the age group of x to x+1. ASFR is usually calculated for every single year of 15 to 49 age or for some broad age groups like 15-19, 20-24, …..The above formula shows ASFR of women of age x. We can compute ASFR between any two age limits by making necessary modifications in numerator and denominator.

Merits and Demerits**:** Since it is age-specific, the fertility rate of women belonging to different age groups within 15-49 is taken into account. Generally ASFR remains small in early ages of puberty, it rapidly increases till around 30 and then declines until it comes down to almost zero around the age of 49 years. Not all women belonging to child bearing age are exposed to the chance of child bearing but only those who are married in that age group and being able to give birth. ASFR ignores both the marital status as well as the infertility element of some women in the child bearing age-group.

Total Fertility Rate (TFR): TFR provides a general index of fertility in a population under two assumptions: (i) every woman who enters the child bearing age gives live births as per the ASFR for each age and (ii) no woman will die before she leaves the reproductive period. TFR is calculated by the formula: TFR = $\sum_{x=15}^{x=49} \frac{B_{\mathrm{x}}}{{}^{f}_{49}P_{15}}$, which is simply the summation of ASFRs. The expression tells us that if 1000 women enter the child bearing age together, then TFR is the number of children to be born live to these women before the time of their exit from their reproductive period. If the multiplier 1000 is dropped, TFR will simply mean the average number of babies to be born to mothers at the end of their reproductive phase. When ASFRs are calculated for age groups 15-19, 20-24,.... 45-49, TFR is computed as: TFR = $\frac{5\ x\ \sum_{15}^{49} ASFR}{1000}$.

Merits and Demerits: TFR is the most frequently used index of birth rate. It takes into account the entire fertility span of women population and at the same time fertility of women belonging to particular age groups. TFR is less precise because of the fact that not every woman shall start her reproductive period at age 15 and some would not bear children.

TFR was estimated to be 5.2 for India in 1971 but is estimated to have come down to 3.6 in 1991 and further to 3.0 in 2002. According to UNDP Human Development Report 2001, TFR for the world population has dropped from 4.5 in 1975 to 2.8 in 1995-2000. In India, TFR has declined from 3.0 in 2002 to 2.4 in 2012. According to latest data available, TFR stands at 2.3 in 2013. Such a high value for TFR means that at the current prevalent age-specific fertility rates, a woman in India would add, on an average, 2.4 children to the population before she completes her reproductive life. Although TFR has been brought down to the level of 2.3 in 2013 over a period of more than 40 years, it is still high enough and 0.2 higher than Replacement Level Fertility (i.e. TFR = 2.1) which is a matter of great concern.

5.3.2 Mortality Rates

We shall discuss four mortality rates viz. CDR, ASDR, IMR and expectation of life at birth. The Crude Death Rate (CDR) or the Crude Mortality Rate (CMR) in any year in an area is defined as the number of deaths in the year per thousand population i.e. CDR = $\frac{\mathrm{D}}{\mathrm{P}} \times 1000$, where D refers to the total number of deaths from all causes registered in a defined geographical area (or a social group) within a time frame (usually a calendar year) and P is the mid-year population in the defined space and time.

Merits and Demerits: This is the most frequently used and most easily calculated and understood index of mortality. It gives a general picture of mortality situation prevailing in the entire population under consideration. However, it is based on the assumption that the risk of dying for every individual (P) is the same. It is not desirable to compare death rates of two countries, two regions or two communities on the basis of CDR because of this limitation. CDR in India has declined from a high rate of 49 per annum per thousand during 1911-21 to 9 in 2001, 8 in 2006 and further to 7 in 2012.

Age-Specific Death Rate (ASDR): Death occurs at all ages and the risk of mortality varies with age. It is therefore necessary to analyse death rates for populations at different ages (or age groups) by calculating age-specific death rates (ASDR). This is calculated as: ASDR = $\frac{nDx}{nPx}$ × 1000 where $_nD_x$ is the number of deaths recorded for persons in the ages x to x+n–1 and $_nP_x$ is the mid-year population size for this age group. When n=1, the ASDR becomes annual age specific death rate and is given by: AASDR = $\frac{D_x}{P_x}$ × 1000.

Merits and Demerits: ASDR makes comparison between two population groups more meaningful. It reveals whether persons in some specific age-group have the same probability of dying as in the total population. However, estimation of ASDR is difficult because unless we know accurately the age of the deceased, errors are bound to creep-in.

Infant Mortality Rate: Children face a greater risk of mortality (i.e. deaths) than adults, especially during the first year of their life. The health status of infants (i.e. those who are less than 12 months old) is an important indicator of the level of healthcare and medical facilities available in an area. The Infant Mortality Rate (IMR) is defined as the number of infants dying 'under one year of age' in a year in an area per thousand live births.

That is: IMR = $\frac{1D_0}{1B_0}$ × 1000 where $_1D_0$ is the number of infant deaths under age 1 year (< 1 year) and $_1B_0$ is the number of live births in the same year and area. IMR for India was about 129 in 1971. It declined to 57 in 2006 and further to 42 in 2012. It varies widely across states. In 2012, at the lower end are Kerala (12), Manipur (10) and Goa (10) and at the upper end are Madhya Pradesh (56), Assam (55), Odisha (53) and Uttar Pradesh (53).

Expectation of Life at Birth: It is the average number of years a new-born child is expected to live under current mortality conditions. Expectation of life can be estimated at any age. For instance, expectation of life at age five is the average number of years a child aged 5 today is expected to live. Expectation of life at birth for India has increased from 41 years in the period 1951-61 to 56 years in 1981-85 and further to 61 years in 1992-96 and to 66 years in 2006-10. It varied (in 2006-10) from the highest in Kerala (74) to the lowest (62) in Assam among the major states of India.

Check Your Progress 1 [answer within 50-100 words within the space given]

1) How is 'density of population measured'? What is its current density for India and how does it compare with those of other countries?

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2) How is the DoP distributed across states in India?

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3) How is CBR defined? What has been its trend in India? How does the CBR in India compare with that in countries?

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4) How is GFR superior to CBR? In spite of this, what is GFR's limitation?

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5) How is TFR estimated? How is it superior to all other fertility rates? What is the significance of the term 'replacement level fertility'?

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6) How is IMR defined? What is its significance?

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5.4 DEMOGRAPHIC TRANSITION

Demographic transition is a process by which countries transit from a situation of high birth and death rates to one of low rates in both. Less Developed countries (LDCs) typically have high birth and death rates: as with development slowly picking-up, death rates tend to fall earlier than birth rates, resulting in rapid population increase. Advanced countries tend to have low birth and death rates, and a low or even negative rate of natural increase. Theory of demographic transition is based on the actual demographic experience of Western Countries. C. P. Blacker (1945) identified five distinct phases of demographic transition as follows.

1) High Stationary stage, characterised by high birth rates and high death rates.
2) Early Expanding Stage characterised by falling birth rates with a time lag, for decreasing mortality.
3) Late Expanding Stage characterised by falling birth rates but rapidly decreasing mortality.
4) Low stationary stage of population characterised by low birth rates balanced by equally low mortality.
5) Declining stage of population with low mortality and deaths exceeding births.

The figures for CBR and CDR in India for the period 1901-2011 is given in Table 5.1. The data indicates that India has been experiencing a fast decline in death rate since 1931. On the other hand, the birth rate has remained very high during the period from 1901 to 1951. This, therefore, was the 'early expanding stage' of population i.e. the second stage of demographic transition in India. From 1981, both the birth rate and the death rate has been declining fast indicating that India is now in 'late expanding stage' of demographic transition. In 2010-15, at the World level, 83 countries were experiencing below replacement level fertility i.e. negative natural growth rate of population. Thus, in spite of including in-migration, countries like Japan (–0.1), Spain (–0.2), Greece (–0.4), Romania (–0.8), Lithuania (–1.6), etc. have registered negative average annual growth rate of population indicating their present stage of demographic transition to be in the 5th stage. Some of the major demographic features in which economies would experience significant shift during the course of demographic transition are: (i) urbanisation; (ii) changing sex-ratio; (iii) structure of population pyramid; and (iv) dependency ratio.

Table 5.1: CBR and CDR in India – 1901 to 2011

Year	CBR	CDR
1901	46	44
1911	49	43
1921	48	47
1931	46	36
1941	45	31
1951	40	27
1961	41	23
1971	41	19

1981	37	15
1991	33	11
2001	25	9
2011	22	7

Source: Health and Family Welfare Report, 2013.

5.4.1 Urbanisation

Urbanisation is a process by which societies become more urban. It refers to a population shift from rural to urban areas. Thus, it is a case in which the rate of growth of urban population is more than the rate of growth of rural population. Two simple measures to gauge the degree of urbanisation are the following.

i) Percentage of Population in Urban areas (PU):

$$\text{PU} = \frac{\text{Size of Urban Population}}{\text{Size of Total Population}} \times 100$$

Higher the value of PU, higher is the degree of urbanisation.

ii) Ratio of Urban-Rural Population (UR):

$$\text{UR} = \frac{\text{Size of Urban Population}}{\text{Size of Rural Population}} \times 100$$

Higher the value of the ratio UR, higher is the degree of urbanisation.

The share of urban population in India (PU) has increased from about 11 percent in 1901 to about 17 percent in 1951 and further to 31 percent in 2011. There has been a gradual increase in the trend of urbanisation in India over the period. The Urban-Rural ratio (UR), on the other hand, has increased from 21 percent in 1951 to 45 percent in 2011. The rate of urbanisation has, however, been uneven across the states. For instance, the NCT of Delhi is the most urbanised with as much as 98 percent of its population living in urban areas. Goa is the most urbanised among the states with 62 percent of its population living in urban areas. The least urbanised states are Himachal Pradesh (10 percent) and Bihar (11 percent). Census classification treats areas with population above a certain level as Urban Areas. Thus, every census has a potential for reclassification certain areas into 'urban', though people in those areas continue to live in the same place.

Still urbanisation is considered beneficial because of better opportunity for earning higher incomes, better infrastructure and better awareness and response of people to social issues in general. Urbanisation therefore contributes to modernisation and social change, the latter through lower birth rate, lower death rate, lower IMR and lower fertility rates. These are mainly due to higher levels of education and healthcare facilities which are much better in urban areas than in rural areas.

The pattern of urbanisation in India is characterised by continuous concentration of population in large cities without adequate expansion of resource base and amenities. As a result, it has generated problems in the areas of housing, transport, water supply and sanitation, water, air and noise pollution, social infrastructure (schools, hospitals etc), urban poverty and unemployment and growth of slum areas.

5.4.2 Sex Ratio

The gender composition of the population is measured by the sex ratio, defined as the number of females per thousand males. It has been observed that females outnumber males in developed countries. India's sex ratio, however, shows that the society is masculine in respect of this demographic feature. The sex ratio in India has declined from 972 in 1901 to 933 in 2001 which slightly increased to 943 in 2011. It varies widely across states: from 1084 in Kerala to 879 in Haryana and among Union Territories, from 1037 in Pondicherry to 618 in Daman & Diu (as per 2011 census). The declining trend in the sex ratio in India has been due to a number of factors like: high Maternal Mortality Rate (MMR), high IMR among the girls, high Child Mortality rate among the girls, strong son preference prevalent among the parents, female illiteracy and low level of education, illegal female infanticide and female foeticide, etc. Efforts to promote gender equality through emphasis on education of girls, empowerment of women, legislation to prevent domestic violence against women and ban on the use of pre-delivery sex determining technology have been scaled up to tackle these issues in the recent years in India. The latest initiative launched viz. 'Beti Bachhao, Beti Padao' is worth noting in this context.

5.4.3 Population Pyramid

Population Pyramid or age-sex pyramids are an elegant and useful way of graphically presenting the age-sex distribution of population. A pyramid comprises of two ordinary histograms placed on their sides. The rules of drawing pyramids are generally the same as those for plotting histograms, but there are certain conventions and special features. These are:

first, pyramids are always drawn showing the male population on the left hand side and the female population on the right hand side. The young are always at the bottom and the old at the top. It is conventional to use single year or 5-year age groups, though other groupings are also possible.

second, the last open ended age-group is normally omitted, but in some cases it is shown.

third, the vertical scale shows the age groups and the horizontal scale shows the percentage of population or absolute number of population of each group. In case of percentages, the percentages are to be calculated using the total population of both sexes combined as the base.

fourth, the horizontal scale must be uniform for both the sides of the pyramid. The vertical scale must also be uniform for both the sides while drawing the histograms.

The population pyramids of India for 2001, 2016 and 2026 (projected) are shown in Fig. 5.1. They reveal that the shape of the population pyramid has been changing gradually. In 2001, it had a much broader base than that in

Demographic Features

2016 and 2026 implying larger proportion of young children in the population in 2001 compared to 2016 and 2026. The proportion of elderly has also grown over the period as revealed by the slightly bigger size of histograms at the top of population pyramid-2026 (Projected). The latter is because of population ageing. The pyramids of developed countries are almost rectangular in shape indicating lower proportion of children and a higher proportion of the adults and the elderly in the population. The larger proportion of working age population in India particularly belonging to age groups 20-24 to 55-59 in pyramids 2016 and 2026 point out towards the country's entering the phase of demographic dividend.

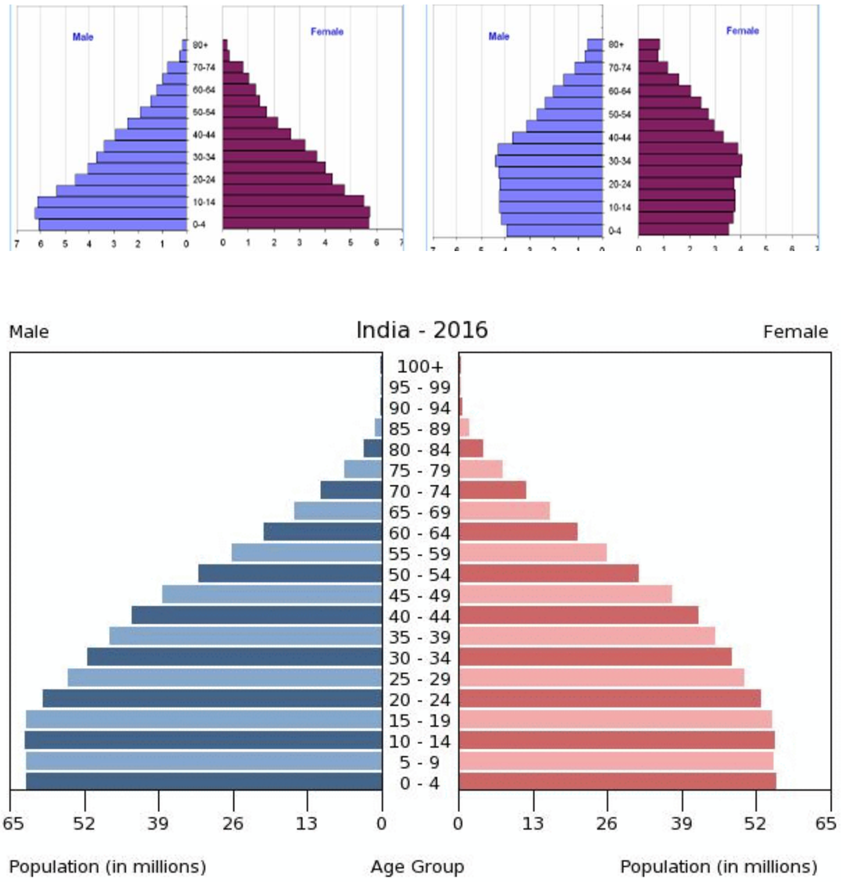

Fig. 5.1: Population Pyramid of India 2001, 2016 & 2026

Source: Internet, http://www.populationpyramid.net/India/2015.

5.4.2 Dependency Ratio

It is customary to classify age data in five-year age groups, such as 0-4, 5-9, 10-14, 15-19, 20-24 years and so on. Such presentation of population age-group-wise is useful for a wide variety of analytical purposes. Usually, population data is clubbed for certain age-groups to get an idea on the potential labour force, economically active population, etc. as follows.

Table 5.2: Classification of Population by Age-Group

Age Group	Classification
0-14	Children
15-24	Young
25-59	Economically productive
60-59	Elderly
80+	Aged

The age-group wise distribution of population facilitates estimation of the size of population among children, young, economically productive, elderly and aged segments of the population by country and region. Different indicators of development can then be estimated among which ‘dependency ratio’ is one important indicator of development. The UNDP HDR 2016 has defined the ‘dependency ratio’ separately for young age population and old age population as follows.

(A) Young-age dependency ratio $= \frac{\text{Young Age(0−14)population}}{\text{Population ages (15−64)}} \times 100$

(B) Old-age dependency ratio $= \frac{\text{Old Age(65 and above)population}}{\text{Population ages (15−64)}} \times 100$

As per the above, the values of (A) and (B) for India in 2015 were 44 and 9 respectively. The corresponding ratios for a developed country like USA are 29 and 22. In less developed countries, dependency ratio is generally high. In India, the ‘dependency ratio’ is measured by taking both the 0-14 and 60+ population as follows.

(C) Dependency Ratio $= \frac{\text{Population of Children (0−14)+ population of Elderly (60+)}}{\text{Population ages (15−59)}}$

Children and elders i.e. those in the age groups of 0–14 and 60+ are expected to be taken care of by the working age population 15-59. The Dependency ratio at (C) above indicates the responsibility of dependents per member of the working age group population. A favourable dependency ratio tends to boost savings. This is possible only if the working age population is productively employed. The Dependency Ratio for India has come down from 0.92 to 0.56 between 1951 and 2001.

5.5 POPULATION AGEING

One of the prominent global demographic events of 21st century is population ageing. Population ageing is a course of demographic change in which the share of aged people increases in total population with a simultaneous decrease in the share of younger ages. The main factors behind the incidence of population ageing are decline in mortality rate followed by decrease in fertility rate along with increase in life expectancy rate. In 1950, the global share of 60+ people was 200 million or 8 percent of the total population. This percentage has increased to 11 in 2011 and is projected to double to 22 in 2050. More specifically, in 2045, it is projected that the number of aged persons will exceed the number of children in the world as a whole. In India

Demographic Features

also the percentage of 60+ people is increasing steadily. For instance, the percentage of aged population to total population was 5.5 percent in 1951 but has increased to about 7.5 percent in 2001 and further to 8.6 percent in 2011. It is projected that the number of elderly population would be about 17 percent of the total population in India by 2051.

5.5.1 Demographic Dividend

The recent rapid fertility decline in some parts of the world has opened up a new window of opportunity for achieving faster growth rate in economic and human development. With steady decline in fertility, there will be fewer and fewer children in the age group 0-14. The past high fertility ensures the growth of the present workforce and the present low fertility implies smaller size of dependent child population in future. This feature of population trend is called 'demographic window or dividend'. More specifically, the dividends that accrue are: (i) higher labour supply for larger economic activities; (ii) fewer children with better health for women's health, education and opportunity to join work force (iii) larger size of working age adults with larger earnings and larger savings i.e. improved capital supply for economic activities; (iv) less investment will be required on children at both micro and macro level as less number of children will be there to look after in the country; (v) better human development due to larger earnings, more investment in higher education and better health for women and children (China improved its ranking in HDI by resorting to one-child family planning norm); and (vi) because of fertility decline and increase in the population of working age people, the dependency ratio will decline. Low dependency ratio is helpful in economic development.

Typically, this window of opportunity, or the availability of the demographic dividend, lasts for 30 to 40 years, depending upon the country. India reached the point of demographic window in 2011. The proportion of those aged less than 15 years is still above 30 percent and the proportion of those aged 65 and above is below 15 percent. The share of the working age population is rising (almost 60.3 percent in 2011) in India. On the other hand, Work Participation Rate (WPR) is low at 39.8 percent in 2011. Urgent steps are, therefore, required to: (i) generate employment opportunities on a scale sufficient to eradicate unemployment and underemployment; and (ii) prioritise skill development among the youths to utilise new avenues of self employment; and (iii) extend the reach of the modern educational and training system so as to enable larger sections of the population to benefit and thereby participate in the development process. Only then can India reap the benefits of 'demographic dividend'.

5.5.2 National Population Policy

The National Population Policy, 2000 (NPP 2000) reiterates the commitment of the government towards voluntary approach in administering family planning services. It provides a policy framework to meet the reproductive and child health needs of the people to achieve the net replacement levels in terms of TFR. The immediate objective of the NPP 2000 is to address the unmet needs for contraception, healthcare infrastructure and to provide integrated service delivery for basic reproductive and child health care. The medium term objective is to bring the TFR to replacement level by 2010 through the implementation of inter-sector operational strategies. The long term objective of NPP 2000 is to achieve a stable population by 2045 in conformity with requirements of the country to ensure sustainable economic development. The government has already taken several steps and initiatives under the immediate objectives of NPP 2000. As a result, TFR has declined from 3.0 in 2002 to 2.3 in 2013. As per latest data available, 24 states/UTs have achieved replacement level of fertility of TFR =2.1 by 2013.

Check Your Progress 2 [answer within the space given in 50-100 words]

1) What is urbanisation? How is it measured? What has been the trend in India's urbanisation process as per these indicators?

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2) What does the population pyramid depict? How does it differ between the developing and the developed countries?

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3) When does a country signifies to have entered a phase of 'demographic dividend'? What are its implications for economic planning?

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5.6 LET US SUM UP

Population assessment for its demographic features is important for economic planning. Different sections of population like young age children, women in the reproductive age group, labour force in the economically active section and the old aged persons – require different kinds of support services from the government in general and the various social infrastructure in particular. Assessment of changing demographic profile is important for economic planning from this point of view. In this context, the unit has introduced several concepts like growth rate in population, fertility and mortality rates, demographic transition, population ageing, etc. India has entered its phase of 'demographic dividend' but several facilities and services to make use of this window of opportunity is as of now still lacking. These include adequate employment opportunities to support its expanding labour force and skill development programs to increase their marketability.

5.7 SOME USEFUL BOOKS

1) Cassen, R.H. (1958). *India : Population, Economy, Society*, Chapter 4, The Macmillan Co. of India Ltd., Delhi.

2) Colin Newell (1994). *Methods and Models in Demography*, John Willey and Sons, England.

3) Human Development Report, (2016). UNDP, New York, NY 10015.

5.8 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) It is measured as the ratio of 'population' to 'square km of land'. 445 for 2016. It is 147 for China, 35 for US and 3 for Australia.

2) It is high in states like Bihar, W. B. and U. P. (with a DoP ranging from 829 to 1106) and low in states like H. P., Sikkim, Mizoram and Arunachal Pradesh (ranging from 17 to 123).

3) It is defined as the ratio of 'number of live births' in an area per '1000 mid-year population'. It has come down from 40 in 1951 to 22 in 2011. It is: 14 in US, 12 in China and 9 in Japan.

4) Unlike CBR, in the denominator it takes into account only the women in the child bearing population. But it does not also discriminate between women coming from different climatic regions with differing fertility potential.

5) TFR is estimated by: TFR = $\frac{5\times\sum_{15}^{49}\text{ASFR}}{1000}$. The multiplier 5 is applicable when the age groups considered are at 5-yearly intervals. Its takes into account the entire fertility span in each age group. Replacement level fertility means that the 'number of children in the population are sufficient to replace the parents' ensuring stability in population. Generally, TFR = 2.1 is considered as replacement level fertility.

6) It is defined as: IMR = $\frac{1D_0}{1B_0}$ × 1000. It indicates the level of healthcare and medical facilities available in an area.

Check Your Progress 2

1) It refers to the population shift from rural to urban areas. It is measured by PU i.e. percentage of population in urban areas and UR i.e. ratio of urban to rural population. In terms of PU, it has doubled from 15 percent to 31 percent over 1951-2011. As per UR, it has increased from 21 to 45 percent over 1951-2011.

2) They depict the distribution of population in percentages by age groups with a broader base indicating more children which is usually the case in developing countries. In developed countries it is rectangular in shape indicating that old age population is higher.

3) This is indicated by the portion of the population pyramid for working age group (20-59) to be wider. It calls for economic planning to increase the jobs available and also to match the skill needs of the market to avoid the consequences of mismatch in it.

UNIT 6 EDUCATION SECTOR[*]

Structure

6.0 OBJECTIVES

After reading this unit, you will be able to:

- distinguish between the terms 'human capital' and 'human development';
- describe the growth in the Education Sector (ES) in India;
- analyse the adequacy of expansion in the ES in terms of its quantitative and qualitative dimensions;
- critique the performance of ES with the educational attainment in terms of its gender and quality dimensions;
- discuss the trend in Public Expenditure on ES in India with a comparative profile of the same in other countries; and
- explain the role of 'state' versus 'market' in financing education with an outline of alternative sources of financing the ES.

6.1 INTRODUCTION

Education contributes to building up what has come to be known as 'human capital'. Human capital is distinct from 'physical capital' but is complementary to the latter. Physical capital facilitates economic growth which, in turn, creates conditions which demand better education facilities.

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[*] Prof. Sebak Jana, Vidyasagar University

This results in human capital formation in the economy. Human capital formation, in turn, spurs economic growth. Thus, these social aspects of development invariably attract the attention of both policy-planners and political leaders albeit with differing motivations for each. In this context, the present unit discusses the issues relating to one of the two specific sub-sectors of social sector development viz. education sector in the Indian economy (the other one being health).

6.2 HUMAN CAPITAL AND HUMAN DEVELOPMENT: DISTINCTION

Human capital can be defined as the body of knowledge possessed by the population and the capacity of the population to use the knowledge effectively. Human capital **therefore** includes all the knowledge, talents, skills, abilities, experience, intelligence, training, judgement, and wisdom possessed individually and collectively, the cumulative total of which represents a form of wealth available to nations and organisations to accomplish their goals. Till the late 1950s, economists and other social scientists did not pay much attention to the role of investment in human capital as an important determinant of economic development. The birth of this idea can be traced to the presidential address of Prof. Theodore W. Schultz to the American Economic Association in December, 1960. The human capital theory propounded by Schultz (1961) laid a strong foundation for treating education as an investment in human beings and for treating it as an important source of economic growth. According to the human capital theory, education transforms raw human beings into productive 'human capital' by imparting knowledge and inculcating skills required by both the traditional sector and the modern sector of the economy. It thus makes individuals more productive members of the society, not only in the market place but also in the households and also in the whole society. Available evidence in almost all the countries, including India, establish significant positive association between proportion of people below the poverty line and the proportion of illiterate persons.

Human development, on the other hand, is defined as the process of enlarging people's freedoms and opportunities thereby improving their overall well-being. Human development is about the real freedom of ordinary people with which they have to decide who they want to be, what they want to do and how they should live. The concept of human development was developed by the economist Mahbub ul Haq and is based on the idea that education and health are integral part of human well-being because only when people have the required ability and a healthy body, they will be able to lead a good and meaningful life. Human development is thus a broader concept which considers human beings as ends in themselves. Human development occurs when majority of people in the economy are educated and healthy.

6.3 EDUCATION SECTOR IN INDIA

The role of education in facilitating social and economic progress is well recognised. It opens up opportunities leading to enhancement of both individual and group potentials. Education, in its broadest sense, is the most crucial input for empowering people with skills and knowledge, giving them access to productive employment opportunities. Improvements in education are not only expected to enhance efficiency but also augment the overall quality of life. The current growth strategy being pursued in India places the highest priority on education as a central instrument for achieving rapid and inclusive growth. It encompasses programmes designed to strengthen the education sector covering all segments of the education pyramid viz. (i) elementary education, (ii) secondary education, and (iii) higher education.

Education Sector

6.3.1 Elementary Education

Elementary Education i.e. class I-VIII consisting of primary (I-V) and upper primary (VI-VIII) levels, is the foundation of the educational system pyramid and has been emphasised in all our programmes of development. The goal of universalisation of elementary education (UEE) got a big push with the adoption of the *Sarva Shiksha Abhiyan* (SSA) programme in 1999. The scheme has been guided by five principles viz. (i) universal access, (ii) universal enrolment, (iii) universal retention, (iv) universal achievement and (v) equity. Besides these, the SSA recognises it as imperative to ensure good quality elementary education to 'all children in the age group of 6 to 14 years'. To ensure this, the 86th Constitutional Amendment (2002) included a new Article (21-A) providing for 'free and compulsory education to all children of 6 to 14 years of age as a Fundamental Right'. The growth of 'primary and upper primary' schools in India has been 6 times (from 0.2 million to 1.3 million) over the period 1951-2015. The enrolment in these schools has increased 9 times (from 22 million in 1951 to 198 million in 2015).

6.3.2 Secondary Education

Secondary education serves as a bridge between elementary and higher education. Like the elementary education, secondary education also has two parts viz. secondary (covering classes 9th and 10th) and senior secondary (classes 11th and 12th). Since universalisation of elementary education has become an accepted goal, it has become essential to push this vision forward towards universalisation of secondary education, something which has already been achieved in a large number of developed countries and the newly industrialised East Asian economies. Till now, the thrust of secondary education has been on improving access and reducing disparities by emphasising on the Common School System in which it is mandatory for schools in a particular area to take students from low-income families in the neighbourhood. The thrust has also been on revision of curricula with an emphasis on vocationalisation of education. In essence, vocationalisation means focusing on providing employment-oriented courses. Other areas of thrust are: (i) expansion and diversification of the open learning system, (ii) reorganisation of teacher training, etc. These objectives till now have, however, been achieved only partly. The number of institutions for secondary education has grown from 0.1 million in 2001 to 0.2 million in 2015. The enrolment in these institutions has grown from 29 million in 2001 to 62 million in 2015. Thus, both the number of institutions and their enrolment have grown by 2 times over the period 2001-15.

6.3.3 Higher Education

The investment made in higher education in the 1950s and 1960s has given India a strong knowledge base in many fields contributing significantly to economic development, social progress, and strengthening political democracy in Independent India. The number of colleges has increased from about 0.1 million in 1951 to 3.8 million in 2015 i.e. a 38 times increase. Likewise, the number of universities has increased from 27 in 1951 to 760 in 2015 i.e. a 28 times increase. The combined enrolment in these 'colleges and universities' has increased from 0.4 million in 1951 to 34.2 million in 2015 i.e. by nearly 86 times. However, despite the expansion that has occurred, the system is under stress to supply the required numbers of skilled human power, equipped with the required knowledge and technical skills helpful in catering to the demands of the economy. The accelerated growth of the economy has already created shortages of high-quality technical manpower. Moreover, unlike the developed countries where the young working age population is fast shrinking with higher dependency ratio, India is in a stage of demographic transition with about 70 percent of the population below the age of 35 years. But this advantage can be realised to economic advantage only if opportunities for youth are expanded on a scale and diversity spread over different fields of basic sciences, engineering and technology, healthcare, architecture, management, etc. This is possible only if rapid expansion is initiated along with long overdue reforms in the higher, technical and professional educational sectors.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) How is Human Capital defined? To which economist, the credit of getting the importance of human capital recognized attributed?

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2) How is Human Development different from Human Capital?

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3) What are the five principles by which the programme SSA is governed?

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4) What has been the magnitude of expansion in respect of 'elementary education' in India?

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5) What has been an important feature of the Common School System in the 'secondary education' system in the country?

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6) What has been the extent of expansion in respect of 'higher education' in India?

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7) Would you say that the expansion in the education sector has kept pace with the requirements of the economy? Why?

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6.4 EDUCATIONAL ATTAINMENT/OUTCOMES

Education is the basic requirement which has now been made a fundamental right through the enactment of RTE (i.e. right of children to free and compulsory education act or the Right To Education – RTE). While higher education is important, elementary education serves as the base over which the super-structure of further education can be built up. Enrolment in schools have improved substantially in recent years but the performance of students in basic aspects of reading, writing and arithmetical operations have remained low. Further, substantial gender-bias in both access to and completion of education has remained as a major cause of concern. Owing to these, wide regional variation exists even within the sub-standard performance of the basic education system. Factors like: (i) poverty, (ii) presence of a wide child-labour market, (iii) absence of assured employment after schooling and (iv) infrastructural problems are identified as responsible for the ills plaguing the elementary education system in India. Providing incentives for attending schools, making the schooling process attractive to the children, streamlining the middle and high school curriculum to vocational and job-oriented courses and providing better infrastructure in schools are some of the policies needing to be focused upon to improve the scenario.

Literacy rate is regarded as one of the basic indicators to reveal the disparity in educational attainment. The urban-rural gap in this respect has fallen substantially (from 34 percent in 1961 to 16 percent in 2011). Despite this, the progress in rural India has not been enough to catch up with the urban literacy levels (urban literacy rate is 85 percent as opposed to 69 percent for rural India in 2011). State-wise attainment shows that while Kerala (94 percent) [along with Mizoram, Lakshadweep and Tripura] has ranked at the top in overall literacy, Bihar has remained at the bottom (61.8 percent) in its overall literacy. The rural-urban disparity is the lowest in Lakshadweep and Kerala, both of which are among the high performing states. Disparities in attainment have also remained on many other fronts, most important of which are in terms of gender and quality.

6.4.1 Gender

There are two indicators which reveal gender-based performance in education. These are: (i) the gross enrolment ratio (GER) and (ii) the gender parity index. Used in place of 'net enrolment ratio' when data on enrolment by exact years of age is not available, the GER is used to reveal the general level of participation in education. The GER is defined by level of education. For instance, for primary education, the GER is defined as percentage of actual enrolment to total eligible official primary school age population in a year. A ratio of GER ≥ 1 (i.e. 100 percent) indicates that in principle a state or country is able to accommodate all its school age population. It, however, does not indicate the actual proportion of eligible population enrolled. In other words, the achievement of GER of ≥ 1 is thus a necessary but not sufficient condition of actual achievement. A typical situation where GER can exceed 1 is when 'over-aged' and 'repeaters' are included. This characteristic of GER makes it require a careful interpretation based on the data used. Computed separately for males and females first, the ratio of 'GER for females to males' is then defined as the 'gender parity index' (GPI). The GPI in India for the recent period of 2007-13 shows that for primary and secondary education it has crossed the level of 1. Besides this, in respect of dropout rate also, there has been a significant improvement in gender parity for three out of four levels of education viz. primary, secondary and senior secondary education (e.g. in 2013-14 it is 4.1 for girls and 4.5 for boys for

Education Sector

primary education, 17.8 for girls and 17.9 for boys for secondary education and 1.6 for girls and 1.5 for boys in senior secondary education). In relative terms, therefore, only in 'upper primary' level of education the dropout rate for girls is higher for girls (4.5) as compared to boys (3.1) [2013-14]. Considering that the dropout rate in 1960-61 was as high as 65 percent, there is a major improvement in this respect. One aspect on which the achievement of improving girls' enrolment could depend is the 'number of female teachers per 100 male teachers'. This figure was as low as around 20 (for each of the three school levels) in 1951. This has gradually risen to the level of 65-80 for different levels of education by 2011-12. Thus, while there is improvement in this respect, there is scope for increasing the number of female teachers at all levels of education both towards achieving greater gender parity as also to minimise dropout rates of female children from schools.

6.4.2 Quality

A nationwide survey of children's reading and arithmetic capabilities in rural India is conducted every year by the NGO Pratham. Given its scale and comprehensive coverage, its Annual Status of Education Report (ASER) is a path-breaking initiative, being the only Indian nationwide survey for assessing the learning achievement of children between classes I and VIII. There are four basic tests of increasing difficulty to gauge the arithmetic competence and the students are asked to perform each only after clearing the lower level. These are: (i) recognition of randomly chosen numbers from one to nine, (ii) recognition of randomly chosen numbers between 11 to 99, (iii) subtraction of two-digit numerical problems with borrowing and (iv) division of three-digit by one-digit numerical problems. The survey results in 2010 reveal that only 37 percent of the children in class III could recognise numbers up to 100. Furthermore, just 27 percent of the students could reach the next level i.e. subtraction. What is even more worrying is that the proportion of children reaching the highest test level has consistently declined since 2005, when the survey was first conducted. In 2005, at least 15 percent of the children in class III could perform all the tests, while in 2010 only 9 percent of the children could do so. Also, in 2010, 67 percent of the children in class VIII could reach the highest level, while the corresponding figure in 2005 was 70 percent. Clearly, pushing enrolment is not automatically translating into improved learning.

Quality of higher education has also been a major concern in India. To rectify this situation, some of the policy measures taken in this direction are: (i) redesigning academic programme to synchronise with the market demands, (ii) laying greater emphasis on interactive modes of learning, (iii) changes in the assessment procedure and examinations, (iv) introduction of the semester system, (v) teachers' assessment, (vi) grading of institutions, (vii) introduction of credit system to afford inter-institutional mobility, (viii) faculty development programmes, (ix) maintenance of national database of academic qualifications, etc. National Policy on Education in India has all thorough laid special emphasis on improving the quality of higher education in India by the establishment of accreditation agencies. Notwithstanding the fact that we have 13 regulatory bodies of higher education, the quality of education is fairly low and content in the programmes less relevant to the 'needs of the individual and the society'. Out of 3,674 colleges assessed by NAAC, only 24.4 percent of colleges have been awarded the A grade. The educational system suffers from what has been called 'diploma disease' i.e. it does not aim at conveying knowledge and skills but is more concerned with certification and credentialing. As such, its contribution to the growth of human capital is minimal and is unable to meet the emerging demands for skilled professionals.

6.5 FINANCING OF EDUCATION

Financing, and in particular mode of financing higher education, is crucial for addressing all the major objectives envisaged for higher education viz. expansion, inclusion and excellence. Though public financing has remained the dominant source of financing higher education, fiscal constraints faced by both the centre and the states and the widening gap between stagnant revenue and the burgeoning cost have compelled the publicly funded universities to look for additional and alternative sources of funding. As a part of the new economic policy, policies have been framed to usher-in the private sector in the delivery of higher education to contribute in its expansion. Between the two extremes of public and private funding, of late, the government is exploring possibilities of partnerships with the private sector to realise the advantages of both the modes of funding, though we already have several variants of PPP working in the country. We have government schools, government aided schools and private schools. Similarly at higher education level we have government colleges, partially UGC funded colleges, etc..

6.5.1 Role of State Versus Market Funding

The role of market as a source of funding took off post-1990s with the suggesting of structural adjustment programmes by the WB & IMF to curtail the public expenditure in social sectors like education. The supporters of market considered the subsidies provided by the government as regressive as mainly the elite gets access to higher education and hence remain the major beneficiaries of subsidies. The funds are thus transferred from poor to the rich since the amount that could be spent on poor gets reduced. To rectify this, they argued that the public funding should be shifted from higher education to school level education. Another argument put forth by the market supporters is that the state funding of education would make educational institutions dependent and, therefore, deprives them of the much needed institutional autonomy for efficient functioning. To overcome this, it was suggested that the generation of private funding should be promoted. It was also argued that the cost recovery measures would improve the quality of education both by making the students more diligent and instilling a measure of accountability among the teachers. The private returns being higher than the social returns, beneficiaries were believed to be willing to pay for their education.

The argument of market proponents that the social rate of return to investment in education is less than the private rate of return was countered by the 'for state funding advocates' on the following grounds. First, the social returns are lower only for higher education whereas for school education there is a consensus that it should be regarded as a public good. Further, when positive externalities are taken into account, the resulting social rate of return far exceeds the private rate of return. This makes the role of state crucial in funding education. Second, consumers are often ignorant of the benefits that they would receive by investing in education. Besides, they cannot take into account the positive spill-over effects of their education on the society (like improving family health, productivity, reduction in poverty rates, etc.). Since the government is considered wiser in making such decisions, state funding in the provision of education is required for ensuring equality of opportunity. Further, since not every household/individual has the resources required to invest in education, in the absence of state subsidies, only those who could afford to pay would enrol in schools and colleges. In other words, those who are meritorious but lack resources would be left out.

In order to meet the ends of equity, market proponents argued that the access to education loans could be improved. However, since the capital market suffers from its own imperfections, such measures would not suffice. Moreover, since the human capital is embodied in individuals, it cannot be offered as liquid collateral. What about inclusion? Will a child from poor family take education loans and at the end of college, begin with a debt burden? Will it be progressive? There is also a long gestation period for the repayment of such loans to commence due to the uncertainty of future income opportunities. Such factors would constrain both the availing of such loans by the individuals and also the institutions from advancing the loans. Thus, the presence of imperfect capital market becomes a major reason due to which the role of state to invest in education needs to continue. The other view point is that educational loans to poor people do not serve the objectives of inclusion and equity as these loans are available for selected courses/institutions only and hence the objective of inclusivity is far from net.

6.5.2 Public Expenditure on Education

If we consider the spill-over effects in the form of positive externalities, education at any level, not only at the elementary and secondary levels, merits to be treated as a ‘public good’. In its strict sense, education is considered as a ‘merit good’. By definition, a good like ‘education’ which is regarded by society or government as deserving public finance, is treated as a merit good. More generally, merit goods are treated as those goods (or services) which the government does not want people to under-consume merely because their consumption depends upon their ‘ability to pay’. To prevent such under-consumption, the government chooses either to subsidise such services or provide it totally free at its point of consumption. In view of the mixed characteristics of education i.e. of both public as well as merit good, education is also sometimes referred to as ‘public merit good’. Impinging on investment for providing the educational services, i.e., a huge establishment or fixed cost as well as a recurring operational cost, the characteristics that impinge on investment considerations of the government are: (i) consumer ignorance, (ii) technical economies of scale, (iii) externalities in production and consumption and (iv) inherent imperfections in the market like absence of credit institutions. On the issue of public investment in education, it is customary to express the total allocation or expenditure as a percentage of GDP (Table 6.1). The trend in this respect for India shows that over the years 1961-81, public expenditure on education doubled from 1.5 percent to 3 percent. Thereafter, it increased marginally by just another 1 percent between 1981 and 2001 (to touch 4.1 percent in 2001). In the post-2000 years, the public expenditure on education has declined (e.g. 2005-06, 3.3%). Since 2005-06, it has ranged from 3.5 percent in 2007 to 4 percent in 2010. The stagnation of public expenditure in education at just around 4.1 percent of GDP (in 2014) is in stark contrast with the comparative profile with other countries (Nepal, 4.7 percent; Germany, 4.9 percent; USA, 5.2 percent; U.K., 5.7 percent and South Africa, 6.1 percent). As stated before, the decline in public expenditure on education in India is for reasons of fiscal constraints whereby for elementary and secondary level more resources are allocated but for higher education, there is a shift towards cost recovery.

Table 6.1: Public expenditure on education as percent of GDP

Year	Percent
1960-61	1.5
1970-71	2.1
1980-81	3.0
1990-91	3.8
2000-01	4.1
2010-11	4.1
2010-11	4.1

Source: MHRD, GoI.

6.5.3 Alternative Sources of Financing

With a view to reducing the burden of educational finance, many alternative methods have been tried. One way of achieving this objective is to reduce the subsidies given to institutions. This would entail the recovery of costs by taking recourse to methods of cost-sharing. Cost sharing is a method by which the burden of financing educational programmes are passed on to the beneficiaries viz. households, industries and the students themselves. Cost sharing is popularly effected mainly in respect of higher/professional education programmes. Some of the methods followed under this include: (i) increasing the fees; (ii) following discriminating fee structure; (iii) graduate tax; and (iv) student loans.

The method of ‘increasing the fees’ has many variants. Some of these are: (a) a uniform increase across graduate and post-graduate programmes; (ii) increasing the fee based on the cost of provisioning of courses; and (iii) giving autonomy to colleges and universities for deciding on the fees to be charged. In all these cases, students opting for similar courses are levied the same fee. In other words, this does not discriminate between those with ability to pay and those who cannot afford to pay. The approach is thus violative of equity considerations. To deal with this, the method of discriminatory fee structure i.e. course fee linked to the income level of the family or the ability to pay is suggested. Those from the lower socio-economic strata are levied less burden and those from the upper income groups are made to pay more. The 'graduate tax' method levies a tax on the employers employing educated workforce. The case for the method is made on the ground that while the employers get the benefit of such educated persons, they themselves do not pay for their training. The method is disadvantageous in that it may motivate the employers to go for less educated workers thereby causing the problem of unemployment among the educated. However, since only educated workforce can undertake certain type of works which are knowledge intensive, the substitution effect is expected to be less. The method of 'student loans' targets the beneficiaries directly. While many committees constituted by the government have favoured this approach, it is also said to adversely impact equity considerations. For instance, the method may lead to the promotion of those courses which are having higher employment market neglecting the courses which may be important from a societal angle. Another problem with this method is the issue of insufficiently developed credit markets and the problem of recovery of loans which is dependent on uncertain future employment markets.

For elementary and secondary level of education, a commonly practised method is 'earmarking'. This refers to a levy of a special cess for the particular purpose. The programme of SSA generated a major part of its funds by this method. Many countries, both developed and developing, have successfully adopted this method. Another method which has successfully been implemented for school level is the 'direct benefit transfer' (DBT) method. A major problem of government schools is of accountability impinging on quality of education. The method of DBT is said to deal with this by transferring the power of selecting a school of their choice to the poor household/parent. It is a voucher system in which a parent can admit a child to the school which charges fees up to the amount of the voucher. Parents can choose any type of institution (private, aided or government) where the fee charged, if higher than the voucher amount, can be supplemented by the family. With the value of the voucher being set 'inverse to the family income' (i.e. poorer families getting higher valued vouchers), the method is argued to afford the potential of being an instrument of greater equity. One criticism of this method is that the method may not work in backward/rural areas as private schools may not be popular in such areas. However, data from NSSO for 2014-15 shows that the per month median fee charged by private unaided elementary schools in rural areas was Rs. 292 while in urban areas it was Rs. 542. In the light of this, it is argued that even a relatively low voucher value of Rs. 500 per month would represent significant share of total expense even in remote rural areas. Another concern about DBT is how to do away with the present 'grants-in-aid' system which is kept equivalent to meet the requirement of teachers' salary. The grants method, thus, gives priority to schools and not to pupils/students. Such a grant does not even take into account the number of students. It is far from trying to address the attitude of the teachers towards their accountability. With DBT, it is pointed out that teachers would have to focus more on attracting, retaining and then giving quality education. Towards implementing DBT, the government is contemplating ‘school consolidation’ where tiny schools are merged with bigger schools nearby and redeploying teachers from over-enrolled schools to under-enrolled schools. Many countries (e.g. Colombia, Chile, Netherlands, New Zealand, US) have used the DBT method to good effect.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What specific policies are needed to improve the sub-standard performance in education?

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2) How is GPI defined?

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3) In what way, the ratio of female enrolment in schools can be improved? To what extent, there is improvement in this regard over time?

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4) What is an indicator available to establish that the school level education system has declined in quality in recent years?

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5) On what grounds, the public funding of education was defended in the face of market proponents arguing against it?

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6) Is education rightly a public good or a merit good? Give reasons for your answer.

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6.6 LET US SUM UP

There has been a good deal of progress in the quantitative expansion of the education sector in India. However, the demand for education has also expanded outpacing the available supply. Owing to this, disparity in educational attainments has remained both in quantitative and qualitative fronts. How to use the available resources more efficiently, without compromising on considerations of equity, has remained a major concern of our policy planners. Towards rationalising on the resource front, public funding for school level education and cost sharing for higher level of education is being considered. To address the ticklish problem of teachers' accountability at school level, methods like direct benefit transfer, school consolidation, etc. are being tried.

6.7 SOME USEFUL BOOKS/REFERENCES FOR FURTHER READING

1) Varghese N.V. and G. Mallik, Eds. (2017). India Higher Education Report 2015, Routledge, 2017.

2) Romer, Paul M. (1990). "Human Capital and Growth: Theory and Evidence", *Carneige- Rochester Series on Public Policy* 32: 251-86.

6.8 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) It is defined as the body of knowledge possessed by the population and encompasses knowledge, talents, skills, abilities, experience, intelligence, training, judgment, etc. Prof. Theodore W. Schultz.

2) By including people's freedoms and opportunities and relating it to overall human well-being. It is thus a broader concept which considers human beings as ends in themselves.

3) Universal access, universal enrolment, universal retention, universal achievement and equity.

4) By 6 times in terms of institutions and 9 times in terms of enrolment

(from 0.2 million 1.3 million and 22 million to 198 million respectively).

5) Under the CSS, it is mandatory for schools in a particular area to take students from low-income families in the neighbourhood.

6) Colleges by 38 times, universities by 28 times and enrolment in colleges/universities by 86 times.

7) No. Because, rapid expansion has not been accompanied by the long overdue reforms in the higher, technical and professional educational sectors.

Check Your Progress 2

1) Incentives for attending schools, streamlining middle/high school curriculum to job-oriented vocational courses, etc.

2) It is defined as the 'ratio of GER for males to females'.

3) By focusing on increasing the proportion of female teachers (per 100 male teachers) in schools (sub-section 6.4.2).

4) The ASER report which has reported a decline in the proportion of children who could qualify from one level of test to another over the period 2005-2010 (sub-section 6.4.3).

5) The social benefits were considered higher even in higher education when positive externalities were taken into account. Lower levels of education, are in any case, considered like public good which would benefit the entire society.

6) Since the benefits of education reach the entire society, and not only the ones getting educated, it has the characteristic of a public good. However, precisely due to this reason, since its non-public funding might make some to under-consume it, it is more rightly regarded as a 'merit good'.

UNIT 7 HEALTH AND NUTRITION[*]

Structure

7.0 OBJECTIVES

After reading this unit, you will be able to:

- define the concepts of health and nutrition;
- explain the status of health and nutrition in terms of major indicators;
- identify the factors contributing to increasing health expenditure;
- describe the structure of Indian Public Health System;
- distinguish between preventive and curative healthcare needs;
- discuss the trends in healthcare financing in India; and
- outline the features of different health policies introduced by the government in India.

7.1 INTRODUCTION

There is a common saying that ‘Health is Wealth’. From a human development perspective, good health and nutrition are invaluable in their contribution to an individual’s physical and cognitive development. Malnutrition increases the susceptibility to infection and delayed recovery, making the burden of disease and morbidity very large for the country. Malnutrition increases the incidence of non-communicable diseases adding to

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[*] Dr. Smritikana Ghosh, Asstt. Prof., Scottish College, Kolkata.

a huge cost of healthcare. However, most of the developing and underdeveloped countries unfortunately have a chronic problem of ill health with India being at a very low position in respect of its health and nutritional ranking. Specifically, in case of children, the situation is more vulnerable as according to World Bank, 22 percent disease burden of the Indian children is because of malnutrition.

Conceptually, **health** refers to 'freedom from illnesses'. Empirically, it is measured in terms of illness prevalence rates and functional disability measures. A person is called healthy when he/she has very low illness prevalence rate and no functional disability. **Nutrition**, on the other hand, is a measure of nourishment. It refers to a process through which the body absorbs the required amount of nutrients contained in the food that one consumes. Health status is thus invariably linked to the nutritional status of a person or community.

7.2 MEASUREMENT OF HEALTH AND NUTRITION: CONCEPTS

Given the current level of India's development, its health scenario is also improving. In terms of infant mortality rate (IMR) and under-five mortality rates, India has achieved significant improvement. Over the last roughly two decade period (from 1992-93 to 2015-16), IMR has come down from 86 to 41 and the under-five mortality rate from 119 to 50 (Table 7.1). It is important for us to know how these major indicators are measured and calculated.

Infant Mortality is the probability of a newly born child's death before its first birthday. Numerically, it is the number of infant deaths per 1000 live births in a year. Abbreviated as IMR, it is measured as: IMR = (Number of resident infant deaths/Number of resident live births)*1000. For example, say in 2016, among the State residents, number of infant death is 1300 and number of live births in the State is 150000. Then IMR= (1300/150000)*1000 = 8.7. According to World Health Organisation (WHO), 75 percent of world's under-five deaths is within first year of infant's life.

Table 7.1: Health Status of India: 1993-2016

Health Status	NFHS I (1992-93)	NFHS II (1998-99)	NFHS III (2005-06)	NFHS IV (2015-16)
Infant Mortality	86.3	73	57	41
Under-five Mortality	118.8	101.4	74	50
Neonatal Mortality	52.7	47.7	NA	NA
Post-neonatal Mortality	33.7	25.3	NA	NA
Maternal Mortality rate	437	530	NA	NA
Crude Death rate	9.7	9.7	NA	NA

Source: NFHS I, NFHS II, NFHS III and NFHS IV. NA: Not Available.

Under-Five Mortality: This is also known as child mortality. It is the probability of dying between first and fifth birthday and is measured as 'the number of deaths per 1000 per year'. Empirically, it is measured as: Child Mortality Rate (CMR) = (D/N)*1000 where D = deaths between 0-4 years during the year of calculation and N = number of live births among the new born during the year of calculation. For computational purposes, the data is to be drawn from the registration of newborns. According to WHO, world-over nearly 9 million children die before their 5th birthday. Main causes of this type of death are pneumonia, diarrhoea and malnutrition.

Neonatal Mortality: This is the probability of dying in the first month or within the first 28 days of the life of an infant after birth. Thus, Neonatal Mortality = (number of neonatal deaths/total number of live birth)*1000. As per UNICEF, the worldwide neonatal mortality has fallen from 36 deaths per 1000 live birth in 1990 to 19 deaths per 1000 live birth in 2015.

Post-neonatal Mortality: This is the difference between infant and neonatal mortality i.e. it is the number of newborns dying between 28 days and 364 days (in a specific geographical area) divided by the number of resident live birth in the same area. This value is multiplied by 1000 to indicate the mortality rate per 1000 live births. Thus, post-neonatal mortality = (Number of resident post-neonatal deaths/total number of resident live births)*1000.

Maternal Mortality Rate: This refers to the number of women who die as a result of childbirth and pregnancy related complication per 100,000 live births. It thus indicates the risk associated with pregnancy. Thus, Maternal Mortality Rate (MMR) = (maternal deaths during a reference period/total number of live birth during the reference period)*100,000. According to UNICEF, between 1990 and 2015, maternal mortality rate has reduced by about half or 50 percent.

The Indian health scenario with respect to the above indicators is indicated in Table 7.1. It shows that except maternal mortality rate and crude death rate, all other rates are falling. Crude death rate (defined as number of deaths per year per 1000 people) is constant for first two National Family Health Survey (NFHS) rounds and maternal mortality rate has increased for the same time period.

7.2.1 Malnutrition

Malnutrition may be over-nutrition or under-nutrition. Under-nutrition is measured by indicators like under-weight, stunting and wasting. ***Wasting*** represents the failure to receive adequate nutrition in the period immediately preceding the survey and is a sign of the extent of malnourishment. It may be the result of inadequate food intake or a recent episode of illness causing loss of weight and the onset of malnutrition. Persons whose ratio Z-score of weight-for-height is below –3 SD (i.e. minus three standard deviation from the median of the reference population) are considered 'severely malnourished' and those below –2 SD as 'malnourished'. Thus, if there are 10 individuals whose Z-scores as: –4.1 SD, –3.9 SD, –3.1 SD, –2.8 SD, –2.1 SD, –2.0 SD, –1.1 SD, 1.5 SD, 1.9 SD and 2.5 SD respectively then, the first three individuals are severely malnourished, the next three individuals are malnourished and the last four are nourished. Note that on the negative side, up to –1 SD, a margin is given for not regarding a person in the malnourished category. Similarly, the height-for-age is the ratio of 'height in cms and age in months'. The Z-score of this ratio is taken as an indicator of 'linear growth retardation' and 'cumulative growth deficits'. Linked to the extent of malnourishment, persons whose Z-score of height-for-age is below –2 SD from the median of the reference population are considered 'stunted' for their age and are labelled '*malnourished*'. Likewise, when this Z-score is less than –3 SD, the person is called 'severely stunted' or 'chronically malnourished'. Stunting reflects failure to receive adequate nutrition over a long period. Such failures are also affected by recurrent and chronic illness. ***Weight-for-age*** is a composite index of height-for-age and weight-for-height which takes into account both the acute and chronic malnutrition. Persons whose weight-for-age is below – 2SD from the median of the reference population are classified as ***underweight***. Sometimes, anaemia level is also taken as an indicator of under-nutrition. In nutrition literature, adult malnutrition and child malnutrition are separately distinguished as follows.

Adult malnutrition is measured by 'body mass index' (BMI), Aneamia level and overweight. BMI is measured as 'weight divided by height-square' (i.e. kg/m^2 where weight is taken in kgs and height is expressed in meters). The standard value of BMI is 18.5. Thus, when a person's BMI is below this standard value, he/she is called '***malnourished***'. On the other hand, when the BMI value is more than 25, the individual is called '***obese***'. In case of anaemic persons, the BMI level is taken as 12 for female and 13 for male. In India, there is a decreasing trend of underweight women and men over time (Table 7.2). However, the percentage of overweight women and men has increased significantly over the last 15 to 20 years. This is very alarming. Within the same time span, percentage of women and men with anaemia has not fallen significantly. This is also a major concern. The trend for ***underweight*** children in India is continuously falling (it has declined

Table 7.2: Adult and Child Malnutrition: 1993-2016

Adult Malnutrition (BMI)	**NFHS I (1992-93)**	**NFHS II (1998-99)**	**NFHS III (2005-06)**	**NFHS IV (2015-16)**
Women's BMI less than normal (18.5)	NA	35.8	35.5	22.9
Men's BMI less than normal (18.5)	NA	NA	34.2	20.2
Anaemia level of Female (age 15-49) (12)	NA	51.8	55.3	53
Anaemia level of Male (age 15-49) (13)	NA	NA	24.2	22.7
Overweight Women (>25)	NA	10.6	12.6	20.7
Overweight Men (>25)	NA	NA	9.3	18.6

Underweight Children (%)	53.4	47	42.5	35.7
Wasted Children (%)	7.5	5.5	9.8	21
Stunting Children (%)	52	45.5	48	38.4

Source: NFHS I, NFHS II, NFHS III and NFHS IV. NA – Not Available.

from 52 percent in 1992-93 to 38 percent in 2015-16). However, the percentage of ***wasted*** children, which was declining up to NFHS II, has been increasing touching an all time high of 21 percent in 2015-16. Percentage of ***stunting*** children was also falling up to NFHS II, but it has increased to 48 percent in NFHS III falling again to 38.4 percent in NFHS IV.

7.2.2 QALY/DALY

Other than the above measures, there are two more popular measures to assess the health standard of people. These are: Quality Adjusted Life Year (QALY) and Disability Adjusted Life Year (DALY). QALY is a measure of disease burden which includes both quality and quantity of life lived. One QALY means one year of perfect health. DALY measures how many years are lost due to ill health, disability or early death. Thus, DALY shows health loss and QALY shows health gain (i.e. QALY is the inverse of DALY). Thus, in practice, the difference between a DALY and a QALY depends on whether the quality of life is expressed as a loss (DALY) or a gain (QALY). Additional differences are taken into account by the way in which disease weights are assigned.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) How are Health and Nutrition defined?

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2) State the five major health indicators? Which of these has fallen internationally by about 50 percent over the period 1990 and 2015?

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3) What are the three sub-components of under-nutrition? How are they measured?

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4) How is 'adult malnutrition' measured? What is a notable trend in this respect for India?

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5) What has been the trend in respect of underweight children in India?

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6) Distinguish between the concepts of QALY and DALY.

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7.3 HEALTH EXPENDITURE

Over past century, worldwide, expenditure on healthcare has risen consistently. The share of GDP devoted to medical spending in the OECD countries has increased from 5.1 percent in 1979 to 8.9 percent in 2006. The corresponding figures on public healthcare expenditure in India has increased marginally from 1.1 percent of GDP in 1995 to 1.4 percent of GDP in 2014. The percentage of GDP, particularly public health expenditure, devoted to healthcare poses public financing challenges for all the countries. The factors responsible for this may be broadly clubbed under the following two heads viz. demand factors and supply factors.

Demand factors:

a) Population Ageing: With increase in average age of the population, demand for medical care is also increasing.

b) Income: It is generally agreed that there is a strong positive relationship between per capita GDP growth and health spending. However, the income elasticity of demand for healthcare spending may vary depending on factors like geographical location, time frame etc.

c) Spread of Insurance Market: The growing health insurance market is also increasing the demand for healthcare expenditure as insurance is an important instrument for covering the risk of rising healthcare cost.

Supply factors:

a) Supplier-Induced Demand: Sometimes health service suppliers create demand for healthcare facilities to increase their market share. This is called supplier induced demand. This is done by adoption of new medical technology, providing medicines and treatments not absolutely related to patient's condition, etc.

b) General Economic Growth: Economic growth of the country is improving the living standard of the population which has also increased the availability of improved medical technology. This induces demand for healthcare expenditure.

7.3.1 Sources of Health Expenditure

Two broad channels for expenditures on healthcare are: (i) the State through public expenditure (i.e. public health expenditure: PHE); and (ii) the individuals/families through their personal expenditure [called out-of-pocket expenditure (OPE)]. Public expenditure consists of all government expenditure on health and family welfare. It includes expenses on medical education, research, hospitals, public health centres and different types of subsidies given by the government [e.g. huge network of primary health centers (PHCs) across the length and breadth of the country, government schemes like ESI/CGHS, medical reimbursements, etc.]. Health expenditure, in general, is increasing because of: (i) increased life expectancy; (ii) demographic change with the share of aged population on the rise; and (iii) increase in chronic diseases. While the per-capita public health expenditure in

India has increased nearly five times over the period 1995-2014, as noted above, as a percentage of GDP it has only marginally increased from 1.1 to 1.4 percent over the period 1995-2014 (Table 7.3). Out-of-pocket expenditure (OPE), on the other hand (which by definition refers to cost sharing and other expenditures incurred by the patients and their families themselves), is very high. As per WHO estimates, the total OPE on healthcare in India has increased from 76 percent in 2005 to close to 90 percent in 2012. In fact, a similar trend in OPE is witnessed in many countries over this period (Table 7.4).

Table 7.3: Profiles of Health Expenditure in India – 1995-2014

India	Per Capita Health Expenditure (US $)	Public Health Expenditure (as % of GDP)	Public Health Expenditure as a % of Total Govt. Expenditure	Public Health Expenditure as a % of Total Health Expenditure
1995	16	1.1	4.3	26.2
2014	75	1.4	4.4	30

Source: WHO

Table 7.4: Share of Out of Pocket Expenditure (OPE) to Total Health Expenditure (THE)

Country	Share of OPE to THE (2005)	Share of OPE to THE (2012)
India	76.1	89.2
Pakistan	80.9	86.8
Bangladesh	62.6	92.9
Nepal	62.6	79.9

Source: WHO

7.4 PUBLIC HEALTHCARE SYSTEM IN INDIA

Public Health is a process of preventing disease, prolonging life and promoting human health through organised efforts and informed choices of society. Healthcare covers not only medical care but also many aspects of preventive care. Indian healthcare system is regressive as private out-of-pocket expenditure dominates the cost of financing healthcare. An ideal healthcare system should be accessible to all with a fair distribution of financial cost and competent service providers.

Healthcare spending can be divided into public and private spending. Despite several growth-orientated policies adopted by the government, economic/regional/and-gender disparities have remained posing challenges for health sector in India. For instance, nearly 75 percent of health infrastructure, medical manpower, and other health resources are concentrated in urban areas where only 27 percent of the population live. To reduce this disparity, public health has to focus on health promotion and disease prevention and control by taking into account the social determinants of health. The focus of public health should be on bringing about changes not only for preventing disease but also for promotion of health through organised action at societal level.

India is the second most populous country of the world with a widely varied socio-political-demographic and morbidity pattern. Most of the States in India face severe healthy workforce shortage. A large number of health service providers, managers and support workers are needed to fill this gap. Many States are unable to provide even basic, minimum lifesaving services in a consistent manner. The challenges of public healthcare system in India may, therefore, be summarised as: (i) inadequate resource availability for public healthcare; (ii) severe geographical and social disparity; (iii) inadequate integration between health programmes; (iv) lack of community focus; (v) fragmented functional responsibility; (vi) inadequate attention to primary healthcare; (vii) inadequate public health orientation; etc.

7.4.1 Preventive and Curative Healthcare

Preventive healthcare refers to measures taken for disease prevention as opposed to disease treatment. It encompasses a variety of interventions undertaken to prevent or delay the occurrence of disease or reduce further transmission or exposure to disease. Several measures instituted for this include: (i) alcohol misuse counselling; (ii) blood pressure screening; (iii) cholesterol screening; (iv) depression screening; (v) diabetes and diet counselling; (vi) hepatitis B and C screening; (vii) syphilis screening; (viii) anaemia screening; (ix) campaigning on importance of breast feeding; (x) folic acid supplements; (xi) urinary tract infection screening; (xii) autism screening (18-24 months); (xiii) immunisation/ vaccination; (xiv) iron supplements; (xv) vision screening; etc.

Curative Healthcare refers to hospitalisation for helping the patients treated for a disease. Currently in India, there are over 5 lakh trained doctors, 7 lakh 'auxiliary nurse midwives' (ANMs), 22,975 PHCs and 2,935 child healthcare centres (CHCs). There are also 22,000 dispensaries and 2,800 hospitals. In spite of this, gaps in facilities, supply and staff exist. Budget is the main problem of different state-run units. Under-funding of the recurring cost is another problem. Private hospitals are provided concessional land with liberal tax structure with conditions for meeting some social obligation. However, there is no proper monitoring to ascertain whether they are fulfilling these obligations. There is also no proper quality control on the large number of small nursing homes run by private doctors and doctors-agencies.

7.4.2 Health Financing

There is a view that healthcare expenditures are largely imposed on individuals, rather than freely chosen. A more demanding requirement is that the financing should be according to 'ability to pay'. A financing structure is called progressive if healthcare expenditure takes a larger proportion of income from the rich than from the poor. If the absolute level of healthcare expenditure is about the same for the poor and rich, then by design this expenditure will take up a larger fraction of income from poorer households. Different studies show that user charges have a strong regressive component in the healthcare financing structure of developing countries.

Health financing is divided in two parts – public financing and private or individual financing. The main challenges faced by the government in deciding on: (i) how much to invest and where; and (ii) how to healthily balance its health investment paying due regard to concerns of equity and efficiency are: (a) increasing public health expenditure [due to which the government, in addition to making increased budgetary allocations, sometimes partners with private sector (e.g. pulse polio immunisation) for delivery of services]; (b) more efficient and effective use of the available scarce resources; and (c) provide financial protection from the rising healthcare cost to the poor.

Of the above, the first i.e. objective of public healthcare expenditure was discussed briefly in Section 7.3. Regarding the second objective on efficient use of the budget, government has recently rearranged its infrastructure totally under the National Rural Health Mission (NRHM). Next comes the objective related to providing financial assistance in meeting the rising healthcare cost to the poor and the needy. This objective is at least, in part, related to the institutional mechanisms of establishing a healthy health insurance market in which the regulatory role of the government plays an important part.

In the last two decades, Central and State governments have been providing insurance premium for meeting the health costs of the underprivileged sections of the society. Even with all these efforts, the current distribution of main sources of health insurance premium is as follows: households (49.5 percent), government (27 percent) and others (employers) (23.5 percent). Such health insurance coverage is mostly for in-patient care i.e. patients who are admitted in the hospital. Comprehensive health insurance (i.e. covering the out/in-patient, preventive, primary and post-hospitalisation care) is offered by only select social health insurance schemes of the government like ESI, CGHS, etc. which caters only to a small section of total population. Few private insurance companies are providing the pre and post hospitalisation follow-up service which only some of the more affluent section of the society are able to avail. The goal of universal health coverage, therefore, continues to remain a distant challenge for India's policy makers and government.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) As a percentage of GDP, how does Indian public healthcare expenditure compares with those of OECD countries over the recent time period?

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2) Which three factors from the 'Demand Side' influences the government's decision to spend more on healthcare? Why?

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3) What factors contribute to influencing higher healthcare expenditure for the public from the 'supply side'?

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4) What are the two major sources of 'health expenditure'? Which of these dominates in Asian Countries? What is its current level in India?

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5) Do you consider the Indian healthcare system regressive? Why?

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6) What are the major challenges faced by the public healthcare system in India?

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7.5 HEALTH POLICY IN INDIA

When one considers the health and related policies in India, we find that we have well-formulated policy guidelines in terms of National Policies for Health, Nutrition, Education, Children, etc. These policies provide an overall framework for health and development reflecting political commitment. The Constitution of the country, [the directive principles] and the national policies provide the broad guidelines for mobilisation and distribution of resources in such a way as to meet the health needs of the masses. The constitutional amendments from time to time and their ratification by the State assemblies also provide the guidelines to planners and administrators to direct the resources to the priority areas. Over the years, the country has expanded its healthcare delivery system and has, by and large, adequate availability of health manpower, except for a few categories and specialised training facilities.

A National Health Mission was launched with specific goals to be attained during the period 2012-17. Main objectives of this mission are to: (i) safeguard the health of the poor; (ii) strengthen the public health system; (iii) empower the community for achieving the maximum health standards; and (iv) improve the efficiency to optimise the use of available resources. Under this mission, many schemes have been launched. Some of these are:

a) **Rashtriya Bal Swasthya Karyakram:** This is an initiative to cover early detection and intervention among children (i.e. from birth to 18 years age) with respect to four D's i.e. defects at birth, diseases, deficiency and developmental delays.

b) **Janani Shishu Suraksha Karyakram:** This is for pregnant women and newborn sick. Through this scheme, diagnosis, treatment, diet, and most of the drugs are provided free of cost. Transport from home to the treatment centre is also provided free of cost. The C-section is also performed free of cost for pregnant women.

c) **Reproductive, Maternal, Newborn, Child and Adolescent Health:** This scheme, introduced in 2013, has the main objectives of reducing the: (i) infant mortality rate to 25 per 1000 live birth; (ii) maternal mortality rate to 100 per 100000 live births; and (iii) total fertility rate (TFR) to 2.1 by the year 2017.

Health and Nutrition

d) **Rashtriya Kishor Swasthya Karyakram:** Established in 2014, the scheme aims to reach 253 million adolescents in the country by intervening through the routes of nutrition, mental health and other health promotional approaches.

e) **India Newborn Action Plan:** This was also established in 2014 with the main objectives of developing the health of newborn and reduces cases of stillbirth.

7.5.1 National Health Policy

The National Health Policy (2002) recognised that morbidity and mortality levels of the country are exceptionally high and hence stronger preventive and curative measures are needed. It took special note of the fact that macro and micro nutrient deficiency among women and children are high. Major diseases like Malaria, TB and HIV have also received special attention here. Given this scenario, the main features of the policy thrust are:

1) More flexibility to state public health administrations to implement policies in their areas;

2) Vertical implementation structure for disease control programmes;

3) More training to paramedical staff to cater to backward regions of the country;

4) Rectifying the uneven distribution of medical colleges across country;

5) Certain medical disciplines like molecular biology etc. to get developed infrastructure;

6) Increasing the number of persons specialised in family medicine and public health;

7) Encourage the usage of generic drugs and vaccine;

8) Include mental health in the public health domain;

9) Since college and school children are the most impressionable target for inculcating the basic principles of preventive healthcare, the policy suggests targeting these youth for increasing the awareness of health promoting behaviour; and

10) Encourage health related research among non-government service providers.

The National Mental Health Policy (2014) aims at: (i) providing universal access to mental healthcare; (ii) increasing access to mental health service to the vulnerable section of the country; (iii) reducing the risk and stigma of mental disease; (iv) ensuring the supply of skilled resources to treat the cases of mental sickness; and (v) identifying the social, biological and psychological determinants of mental health disorder. The more recent National Health Policy, 2017 also reiterates the goal of attaining the highest possible level of health and well-being by ensuring universal access to good quality healthcare services (without financial hardship) linked to the

Sustainable Developmental Goals. To achieve universal health coverage, specific steps identified under this are: (i) establishment of a comprehensive and free primary healthcare service for maternal, child and adolescent health through public hospitals and not-for profit private care providers; and (ii) provide a good quality secondary and tertiary healthcare service. The policy particularly emphasises the need for reducing the out-of-pocket expenditure on healthcare needs. The other major objectives of this policy are to: (i) increase the life expectancy at birth from 67.5 to 70 by 2025; (ii) reduce the under-five mortality to 23 by 2025 and maternal mortality to 100 by 2020; (iii) reduce the infant mortality rate to 28 by 2019; (iv) reduce neo-natal mortality to 16 and still birth rate to single digit by 2025; (v) eliminate leprosy by 2018; (vi) fully immunise 90 percent newborn by 2025; (vii) ensure adequate availability of paramedics and health workers for primary and secondary healthcare in high priority Districts by 2025; (viii) ensure District level electronic database of information on health system by 2020; etc.

The 2017 policy thus aims to project an incremental assurance based approach. However, the policy gives cause for two types of criticisms viz. (i) agency stakeholder critique; and (ii) feasibility critique. On the first, while the policy identifies what needs to be done, it does not identify the 'who, what and the how' sides of its implementation. This is perhaps due to the reason that healthcare is a State subject but it is important to improve the monitoring of the delivery systems. On the second, i.e. the feasibility critique, the policy calls for a reform in financing the public healthcare facilities where the operational costs would be in the form of reimbursements for care provision on a per capita basis for primary care. But the policy is silent on how these financing reforms will happen and who will manage them. Thus, while the policy more lucidly identifies the need to address problems with respect to three As (Access, Affordability, Accountability) of healthcare system of India, it fails to provide a cohesive, tangible action plan to address the problems pertaining to any of the As – especially when the public healthcare system is sinking under micro and macro managerial inefficiencies and is low on training and capacity building efforts.

Check Your Progress 3 [answer within the space given in about 50-100 words]

1) State the four specific goals of the National Health Mission: 2012-17.

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2) What are the two specific steps identified to achieve 'universal health coverage' under the National Health Policy, 2017?

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3) State the five major aims of the National Mental Health Policy, 2014.

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4) On what fronts, is the National Health Policy, 2017, is critiqued?

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7.6 LET US SUM UP

For a developing country like India, improving the nutrition and the general health status of its population is a critical concern of the government. Even though there is a gradual improvement over time in many of the major health indicators for India, the improvement is at a very slow rate. In particular, under-five mortality rate is still 50 percent. In case of nutrition status, cases of stunting and wasting are increasing which is alarming. To improve the situation, the Indian Government has initiated several policies and programmes. However, its overall public expenditure on health, which is less than 1.5 percent of GDP is very low. Consequently, the average share of out-of-pocket expenditure to total expenditure is not only very high (90 percent in 2012) but has continuously maintained an increasing trend. Further, most of the public healthcare infrastructure is concentrated in urban areas. Lack of adequate supply of health workforce is also an area of concern. Health insurance is getting importance in the society as well as in the government circles. Government is improving the situation through different policies and by providing improved preventive and curative healthcare services. Among different policies some of the important ones are: National Health Mission, National Mental Health Policy of India (2014), National Health Policy (2002, 2017), etc.

7.7 SOME USEFUL BOOKS

1) Neun and Santerre: *Health Economics: Theories, Insights and Industry Study*.
2) Ministry of health and family welfare, Government of India: National Family Health Survey (I,II,III and IV).
3) Government of India: RBI Bulletin.
4) Ministry of health and family welfare, Government of India: National Health Policy.

7.8 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Health refers to 'freedom from illnesses'. Nutrition refers to a process through which the body absorbs the required amount of nutrients contained in the food that one consumes. It is thus a measure of nourishment.
2) IMR, Under-5 mortality, neo-natal mortality, post-neonatal mortality and MMR. MMR has fallen by about 50 percent between 1990 and 2015.
3) Under-weight, stunting and wasting are the 3 sub-components of under-nutrition. They are measured in terms of deviation from Z scores (Sub-section 7.2.1).
4) By BMI, anaemia level and overweight. There is a decreasing trend of underweight women and men over time.
5) The trend for ***underweight*** children in India is continuously falling (it has declined from 52 percent in 1992-93 to 38 percent in 2015-16).
6) QALY is a measure of disease burden whereas DALY shows health loss. Taken as an inverse of each other, QALY measures health gain.

Check Your Progress 2

1) For OECD countries, over 1979-2006, it has increased from 5.1 percent of GDP to 8.9 percent. In India, over 1995-2014, it has increased from 1.1 percent to 1.4 percent of GDP.
2) Population ageing, income and spread of insurance market.
3) Supplier Induced Demand and general economic growth.
4) PHE and OPE. For Asian countries, OPE is more than 80 percent. For India, it is estimated as 89.2 percent in 2012.

5) Yes because of high private out-of-pocket expenditure. An ideal healthcare system should be accessible to all with a fair distribution of financial cost between the public and the private healthcare spending.

6) Inadequate resource availability for public healthcare, severe geographical and social disparity, inadequate integration between health programmes, lack of community focus, etc.

Check Your Progress 3

1) Safeguard the health of the poor, strengthen the public health system, empower the community for achieving the maximum health standards and improve the efficiency to optimise the use of available resources.

2) Establishment of a comprehensive and free primary healthcare service for maternal, child and adolescent health through public hospitals and good quality secondary and tertiary healthcare service.

3) Providing universal access to mental healthcare, increasing access to mental health service to the vulnerable section of the country, etc. (Sub-section 7.5.1).

4) On two ground viz. agency stakeholder critique and feasibility critique (Sub-section 7.5.1).

BLOCK 3
GROWTH AND DISTRIBUTION

BLOCK INTRODUCTION

Block 3: Growth and Distribution

Block 3 of this course is on ‘Growth and Distribution’. This block has three units. The units are devoted to the themes of poverty, inequality and employment & unemployment.

Unit 8 is on ‘**Poverty**’. The unit begins by outlining the growth in population over the decades. It then explains the linkage of poverty to the factors of nutrition, credit, insurance, informal economy and discrimination. Various poverty alleviation initiatives taken during the period of 1947-2010 is then discussed. The more recent measures on tackling poverty during the decade of 2010s is outlined.

Unit 9 is on ‘**Inequality**’. The unit defines ‘inequality’ in terms of horizontal inequality and vertical inequality. It then explains inequality in terms of its income, consumption and nutritional dimensions. The concept of ‘regional inequality’ is outlined in terms of ‘standard of living’ and ‘sectoral divergence’.

Unit 10 is on ‘**Employment and Unemployment**’. The unit begins with a conceptual outline of employment, unemployment, labour force participation rate and work force participation rate. The various employment policies pursued in India are then discussed. The large informal base of the economy and the initiatives taken to meet the social security needs of the large unorganised sector workforce is then explained in the unit.

UNIT 8 POVERTY[*]

Structure

8.0 OBJECTIVES

After reading this unit, you will be able to:

- define the concepts of poverty and poverty line;
- discuss the methods of measurement of poverty;
- explain the approach adopted in India to measure poverty;
- analyse the linkage of poverty with factors influencing its alleviation;
- describe the important measures initiated to alleviate poverty in India up to 2010; and
- outline the recent measures initiated to combat poverty in India during the post-2010 years.

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8.1 INTRODUCTION

In the year 2015, as per a WHO estimate, the world had 872 million people below the poverty line out of which 180 million were living in India. This makes the percentage of people living below the poverty line in India close to 21 percent. Poverty is epidemic dearth. It is the state of a person lacking a 'minimum' amount of material possessions or money. Poverty may be absolute or relative. Absolute poverty refers to the lack of means necessary to meet the basic needs such as food, clothing and shelter. Relative poverty takes into consideration the individual's social and economic status compared to the rest of society. Considered in the relative sense it is a multifaceted concept. In view of this, any measure of poverty based only on income cannot capture all its dimensions. In other words, in addition to having basic measures of poverty, we also need to have a multidimensional concept of poverty. In India, poverty estimates have been developed based on the concept of poverty line by two methods: one keeping the income required to purchase the basic necessities in view (income approach) and the other by taking into account the actual consumption made by families (consumption approach). Poverty line reflects a minimum living standard which should be assured to every individual. Those falling below this level are counted as people living in poverty. In the income approach, it is stated as the number of rupees required per day for purchasing the basic necessities.

8.2 MEASUREMENT OF POVERTY

There are different measures of poverty. In this section, we shall study some of the important methods of poverty measurement.

8.2.1 Methods of Measurement

We begin with the head count ratio, which, while being simple to compute, and hence widely used, does not help us to know the relative intensity of poverty between two comparing groups. A measure called the 'poverty gap ratio' gives us an idea of intensity of poverty between two regions or groups. However this latter method too does not provide a measure of the severity of poverty. This lacuna is removed by the method of 'squared poverty gap ratio'. In this section, besides familiarising ourselves with these measures of poverty, we shall learn about two more measures, one developed by Harold Watts (1964) and the other by Amartya Sen (1976) both of which are known for satisfying theoretical properties.

Head Count Ratio (H): This is defined as the percentage of the total population that is poor i.e. it is defined as $H = \frac{q}{n}$ where q is the number of poor people and n is the total population. For instance, if there are 1000 people in a region among whom 430 are poor (as per a pre-defined poverty line), then H = 430/1000 = 0.43. Thus, expressed as a percentage, this means 43 percent of people in the region are poor. In this measure, while the proportion of people below the poverty line can be known, we cannot know the extent (or the intensity) of poverty i.e. how much poor these 430 persons are, cannot be determined.

Poverty Gap Index (PGI): For studying the intensity of poverty, estimation of poverty gap ratio is useful. This tells us the extent to which individuals, on average, fall below a poverty line. It is thus an indicator that tells us how far the extremely poor fall below the poverty line. Defined as the mean distance below the poverty line, it reflects both the depth and the incidence of poverty. The PGI considers persons who are non-poor to have 'zero' poverty gap. Aggregated over a group of individuals surveyed, the poverty gap ratio becomes a poverty gap index (PGI). Thus, if Y_i is the income of an individual 'i', and the poverty line is taken as Z, then PGI is defined as:

$$PGI = \frac{1}{N}\sum_{i=1}^{J}\left(\frac{Z-Y_i}{Z}\right) \quad (8.1)$$

where *N* is the total population surveyed. Thus, if there are 100 people (*N*) among whom 40 are poor with their respective income denoted by Y_1, Y_2, $Y_{3,\ldots\ldots,}Y_{40}$ and Rs 1000 is taken as the poverty line, then PGI is calculated as:

$$PGI = \frac{1}{100}\left[\left(\frac{1000-Y_1}{1000}\right) + \left(\frac{1000-Y_2}{1000}\right) + \cdots \ldots \ldots \ldots \ldots \ldots \ldots .. + \left(\frac{1000-Y_{40}}{1000}\right)\right] \quad (8.2)$$

In order to understand how the PGI is superior to H, it is useful to consider an empirical illustration. Notice that for a sample of 8 households, the head count ratio of poverty is commonly coming out as 0.375 (Table 8.1) for both the regions under investigation since the head count method considers the number of persons below the poverty line of Rs. 800 only into account. However, in case of PGI (where we take G_i as equal to '0' if $Y_i > Z$ and equal to $Z - Y_i$ if $Y_i < Z$) we notice that, for the same data, the *PGI* for region 1 (0.013) is lower than that for region 2 (0.119). Thus, the *PGI* value is more instructive to the planners in conveying that better targeting of schemes is necessary to focus in region 2 due to higher intensity of poverty in that region as compared to the region 1. PGI is also not without its own limitation as a principle called Dalton's transfer principle is violated by the PGI. The principle requires that by transferring some money from a above poverty line household to a below poverty line household (called progressive transfer), the PGI in the more severe region should come down. This principle requires that a poverty index should be 'sensitive' to the degree of inequality between the incomes of the poor households or individuals. This principle is violated both by the head count ratio and the PGI. This is because in the case of PGI the gaps are all weighed equally. This lacunae is overcome by the 'squared poverty gap ratio' where the weights are kept proportionate to the poverty gaps themselves (i.e. a poverty gap of 'x' percent is given weight equal to 'x' percent).

Table 8.1: Headcount Ratio Method

Region	**MPCE (in Rs.) in 8 Sample Households**								**Headcount Ratio (P_0)** **Z = Rs. 800**
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
Region I	950	1100	1000	975	750	775	790	1400	3/8 = 0.375
Region II	1250	1150	1400	1100	550	600	490	1200	3/8 = 0.375

Table 8.2: Poverty-Gap Ratio Method

Region	**MPCE (in Rs.) in 8 Sample Households**								**Poverty Gap Index (P_1)**
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
Region I	950	1100	1000	975	750	775	790	1400	$Z = 800$
$G_i = Z - Y_i$	0	0	0	0	50	25	10	0	
G_i/Z	0	0	0	0	0.0625	0.03125	0.0125	0	0.10625/8 = **0.013**
Region II	1250	1150	1400	1100	550	600	490	1200	
$G_i = Z - Y_i$	0	0	0	0	250	200	310	0	
G_i/Z	0	0	0	0	0.3125	0.25	0.3875	0	0.95/8 = 0.**119**

Note: G_i is written as 'zero' if $(Z - Y_i) < 0$ and the actual difference otherwise.

Squared Poverty Gap Index (SPGI): Defined as the mean of the squared proportionate poverty gap, this measure reflects the severity of poverty and hence also called as Poverty Severity Index. Defined as a weighted sum of poverty gaps, with weights proportionate to the poverty gaps themselves, the index is marked for being sensitive to inequality among the poor. This means a poverty gap of 5 percent will get the weight of 5 percent, a poverty gap of 60 percent will get the weight of 60 percent, and so on. This is an advanced version of poverty gap index where the weights were equal. In other words, by squaring the poverty gap, the SPGI gives more stress on the observations that fall significantly below the poverty line. The index is thus represented as:

$$SPGI = \frac{1}{N}\sum_{i=1}^{N}\left(\frac{G_i}{z}\right)^2 \qquad (8.3)$$

where N is the total number of population or observations in the poverty survey, G_i is the poverty gap of the i^{th} individual and z is the poverty line. The measure of severity (or depth) of poverty is important as it provides complementary information on the incidence of poverty. This is in the sense that while some groups may have a high poverty incidence (i.e. numerous members are just below the poverty line) but with a low poverty gap, other groups may have a low poverty incidence (i.e. relatively few members are below the poverty line) but have a high poverty gap (e.g. extremely low levels of consumption for those who are poor).

Sen's Index: Prof A K Sen (1976) proposed a poverty index combining all the three factors of number of poor, depth of poverty and distribution of poverty within a group. The index is given by:

$$P_s = P_0[1 - (1 - G^p)\frac{\mu^p}{z}] \qquad (8.4)$$

where P_0 is the head count index, μ^p is the mean income of the poor and G^p is the Gini coefficient of inequality among the poor individuals ($0 \leq G^p \leq 1$). Sen's index is thus the weighted average of headcount and poverty gap measures. The index is mainly used in theory and not so much in the practice due to its difficult composition than the earlier three measures considered. The index also suffers from the limitation that it cannot decompose the contribution of poverty into different subgroups.

Watts Index: This is a distribution sensitive poverty measure defined as:

$$W = \frac{1}{N}\sum_{i=1}^{q}[log(Z) - log(Y_i)] \qquad (8.5)$$

where *N* is the number of individuals arranged in ascending order of income (or expenditure), summed over 'q' individuals whose income Y_i falls below the poverty line *Z*. This index is gaining in its popularity as it satisfies many theoretical properties. However, this index is also not yet popular in application.

8.2.2 Poverty Measurement in India

During the first two five year plan periods, poverty was defined in India as the minimum energy requirement to enable an active and healthy life. For this an energy norm was set as 2400 Kcal per adult per day in urban areas and 2900 Kcal per adult per day in rural areas. Based on this norm, at 1960-61 prices, the poverty line was defined as a national minimum of Rs. 20 per capita per month for rural areas and Rs. 25 per capita per month for urban areas. Many experts have conducted independent studies and recommended different poverty line expenditure levels for rural and urban population. The figures quoted here are those used by the planning commission. These estimates represented a broad judgement of minimum needs, and was not strictly related to nutritional requirements, although these were also taken into account.

Later, for the sixth five year plan (1980-85), the per capita consumption expenditure approach was used. The energy requirement per day was lowered to a norm of 2400 Kcal per adult per day in rural areas and 2100 Kcal per adult per day in urban areas. Based on observed consumer behaviour in 1973-74, it was estimated that on an average consumer expenditure of Rs. 49 per capita per month for rural areas and Rs. 57 per capita per month for urban areas was the poverty line. The concept of poverty line used at this stage was thus partly normative and partly behavioural. The approach did not seek to measure the nutritional status nor did it take into account the incidence of malnourishment and under nourishment in the population. Thus, the poverty lines drawn were based on consumption requirement and not actual income. The approach thus obfuscated dependence on 'debt, use of common property resources and informal social security'.

The approach to measuring poverty line was further modified to include five non-food items (viz. Clothing, footwear, durable goods, education and institutional medical expenses) based on consumer expenditure data for a 365-day recall period w.e.f. 2004-05 (61st round of NSSO survey). Further, to assist a more scientific basis for including the 'protein calorie requirement', the National Nutrition Monitoring Bureau (NNMB) had begun collecting data on diet and nutritional status of rural households for 10 states since 1974-75. The periodic reports of NNMB had revealed that the protein calorie adequacy status was stable till 1981 but had been declining since then. A second revelation of these reports was that in 2002 only one-third of preschool children were meeting the protein calorie adequacy norm. The latter is suggestive of the fact that under-nutrition is a major problem among the preschool children in India. And yet another change introduced in the methodology of estimating poverty line was the introduction of 'mixed recall period' approach in 2004-05. Prior to this (in the consumer expenditure survey of 2000) a 'uniform recall period' (URP) of 30-days was adopted for all items including both food and non-food. The modified approach of MRP in 2004-05, in which the 365-day recall approach was used for non-food items and 30-day recall approach was used for other items. The estimates of poverty line for 1999-2000 were placed at Rs. 27 per capita per day for rural areas (or Rs. 810 per month) and Rs. 24 per capita per day for urban areas (i.e. Rs. 720 per month). The corresponding estimates for the year 2004-05 were Rs. 28 for rural areas (Rs. 840 per month) and Rs. 26 (Rs. 780 per month) for urban areas.

Estimates of poverty line made to a time point closer to post-2010 are from two major reports. The first of this relate to the Tendulkar report (2009) which placed the per capita per day requirement (for 2009-10) in rural areas at Rs. 27 with the corresponding estimate for urban areas at Rs. 33 (i.e. Rs. 810 per capita per month for rural areas and Rs. 990 per capita per month for urban areas). The Tendulkar estimates used a common poverty line basket (PLB) for both the rural and urban areas which was a departure from considering two separate baskets of consumption in all earlier exercises. This was done by the Tendulkar committee to avoid the element of 'arbitrariness in specifying the numerical nominal level of PLB' and it therefore chose to regard the relatively less controversial urban level PLB of a poor household as the common PLB for both rural and urban areas. This was done after duly adjusting for 'intra-state and inter-country rural-urban price differentials'. Reverting to the earlier two separate poverty line baskets for rural and urban areas, the second report by Rangarajan (2014) estimated the poverty line for 2014 as Rs. 32 per capita per day for rural areas and Rs. 47 per capita per day for urban areas. This works out to a monthly per capita per day estimate of Rs. 972 for rural areas and Rs. 1407 for urban areas. The report of 2014 estimated the percentage of people below the poverty line in 2011-12 as 29.5 percent at the all India level with its distribution over the rural and urban locations placed at 30.9 percent and 26.4 percent respectively.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) Define poverty.

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2) Distinguish between absolute poverty and relative poverty.

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3) What are the two approaches used to measure poverty? How do they differ?

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4) What was a basic lacuna of the consumption or income approach of measuring poverty?

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5) How is the ‘headcount ratio’ of measuring poverty defined? What is its basic limitation?

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6) How is the ‘poverty gap index’ (PGI) measure an improvement over the ‘headcount ratio/index’? In what way PGI is useful as compared to the headcount ratio? What is the limitation of PGI measure of poverty?

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7) How is the ‘squared poverty gap index (SPGI)’ an improvement over the PGI?

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8) What is the Sen's index of poverty? In what way it is superior to the other methods?

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9) What are the major factors that have been taken into account in the approaches to estimate poverty in India? In what way they have changed over time?

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10) Present a chronological picture of the different estimates of poverty worked out for rural and urban regions in India.

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8.3 POVERTY LINKAGES

We earlier noted that poverty is multidimensional. This means it has linkages with many factors cutting across social and economic spheres. In this section, we shall see how these linkages work, some in favour and some against.

8.3.1 Nutrition

Poverty restricts the income and thereby the expenditure causing in turn the dietary deprivation and malnutrition. Due to malnutrition, there is lack of mental and physical development. The poor in India have had access to subsidised food through the public distribution system. As a result, though pockets of food scarcity still exist, famines have been eliminated. Over the years, there has been a decline in household expenditure on food, particularly among the poor. To combat such situation, since 1975, the government has launched the Integrated Child Development Services (ICDS) programme in which food supplements are provided to children and pregnant and lactating women in the entire country. In spite of this, low birth weight rates are still over 30 percent and about half the children are undernourished. High undernutrition rates among children is mainly due to low birth-weight and poor infant and child feeding/caring practices.

8.3.2 Credit

After the financial liberalisation, there has been expansion in services of microfinance. Initially, this was considered a positive development, but over time it has been realised that it is burdening the poorer sections of the society with higher interest rates charged. There is, however, evidence that better access to credit by the poor enables them to pull themselves out of poverty by helping them invest in their human capital and set up microenterprises which has the potential for making a dent into their poverty.

Improvement in credit services can be measured by two indicators: (i) the ratio of total bank credit to the Net State Domestic Product and (ii) financial inclusion or penetration measured by per capita bank branches (i.e. total number of operating bank branches per million persons in each state). It is observed that financial depth has a negative and significant correlation particularly with rural poverty in India. This is effected by reduced migration from rural to urban areas. Thus, banking sector development and financial inclusion can reduce income inequality and poverty.

8.3.3 Insurance

Tertiary healthcare is often too expensive for people with low incomes. As a result, those requiring tertiary healthcare often go untreated or are left with devastating hospital bills, both of which exacerbate poverty. In addition, cases of heart disease and cancer, requiring tertiary healthcare are rising in many countries particularly in countries with higher incidence of poverty like in India. To meet the need in this respect, many states in India have introduced social insurance programmes that provide free tertiary healthcare to households below the poverty line. For instance, the Vajpayee Arogyashree Scheme (VAS) launched (in Karnataka) in 2010 entitles beneficiaries for free targeted tertiary healthcare services covering cardiac, oncologic, neurologic, burn and trauma care. Unlike the national health insurance programme (i.e. Rashtriya Swasthya Bima Yojna) for people below poverty line, VAS covers only tertiary healthcare and requires no prior enrolment or annual premiums. It also incentivises healthcare providers to seek out patients with cardiac and oncologic conditions whose treatment requires costly specialised care.

8.3.4 Informal Economy

Informal economy includes both self-employment in small unregistered enterprises and wage employment in unprotected jobs of the formal sector. This means, not all informal workers are poor and not all working poor are engaged only in informal sector. In other words, there is a growing segment of workers world-wide who derive informal employment in the formal sector without any benefits of social security. This trend requires recognition for its vulnerability to catastrophic healthcare expenses which would marginalise the poor even more.

8.3.5 Discrimination

Poverty and discrimination are often linked. Discrimination based on ethnicity, race, gender, etc. directly influence access to economic opportunity through a complex set of institutional effects in families, schools, and work settings.

Discrimination can both cause poverty and be a hurdle in alleviating poverty. Although the achievements under 'millennium development goals' (MDGs) have supported aggregate progress, even in countries where there have been significant gains toward achieving the MDGs, inequalities have grown. Recognition of this fact has brought about an increasing awareness on the importance of working to reduce the growing economic inequalities in the post-2015's renewed MDG framework. A key element of this is to actively work to eliminate discrimination.

8.4 POVERTY ALLEVIATION INITIATIVES TILL 2010

An integral part of a well-rounded and holistic anti-poverty strategy must be sustained rapid growth. Conceptually, sustained rapid growth works through two channels to rapidly reduce poverty. First, rapid growth creates jobs and raises real wages. Second, rapid growth leads to growth in government revenues. Enhanced revenues, in turn, allow the expansion of social expenditures at faster pace. India began with very low income and low growth for more than three decades after independence. The result was relatively low level of per-capita expenditure on health, education and direct anti-poverty programmes. Faster growth during the 1990s, and during 2003-04 to 2011-12, changed the situation to enable India afford a universal rural employment guarantee scheme and near-universal public distribution system (PDS) that offers cereals at highly subsidised prices. Against this background, in the present section we will take note of three *major* areas which are *important* from the point of view of poverty alleviation in India.

8.4.1 Agricultural Growth

Any strategy for poverty reduction must tackle the issues facing rural India which still accounts for 68.8 percent of the total population (i.e. close to 833 million people as per the 2011 Census). Further, in 2011-12, about 80 percent of India's poor lived in rural areas with the livelihood of most of them dependent directly or indirectly on the performance of agricultural sector. The rural farm and non-farm incomes are so much interdependent that a strong non-farm rural economy requires a vibrant agricultural growth. As per the 2011-12 Employment-Unemployment Survey of NSSO, agriculture and allied activities employed 49 percent of total workforce in India. Despite this huge workforce dependent on agriculture, the share of agriculture in the GDP is below 15 percent. One of the reasons for this skewed distribution of labour force in agriculture is the paucity of alternative livelihood opportunities either at village level or in the nearby townships and cities. Excess labour force coupled with traditional agricultural practices has resulted in low farm yield and income. To break this cycle of poverty in rural areas, a two-pronged strategy is required: one, we must improve the performance of agriculture sector and, two, simultaneously create jobs in industry and services in both the rural and urban areas.

8.4.2 Mid-day Meal Scheme (MDMS)

The MDMS was launched as a Centrally Sponsored Scheme in 1995 with the objectives of: (i) improving the nutritional status of school children, (ii) eliminate classroom hunger and enhance school enrolment and (iii) retain school attendance minimising the dropout rates. With effect from 2008-09, the programme has been extended to upper primary level. The government envisages expansion of MDMS in a progressive manner to include children in private schools (as they have a 25 percent quota for Economically Weaker Sections), particularly in SC/ST and Minority concentrated areas. There is however a poor convergence of MDMS with the school health programme. As such, there is a need to form networks of Medical Colleges, Home Science faculties and State level MDMS steering and monitoring committees to evolve state-specific guidelines for improved quality and safety of food provided under the MDMS. As of now, only 75 percent of schools have kitchen sheds. This means that 25 percent of schools (3.62 lakhs) prepare the mid-day meal either in an open area or in the classrooms. This is a major cause of concern for the health and quality of education of students.

8.4.3 MGNREGA

MGNREGA guarantees 100 days of unskilled employment at a specified wage in a given financial year to one member of every rural household. The scheme was launched in 2006-07 in 200 selected districts but was gradually extended to the whole country. The underlying objective of the scheme is to enhance the livelihood security of the poor households in rural areas of the country. Other objectives include rejuvenating natural resource base, creating productive rural assets, stimulating local economy by providing safety net to rural poor, ensuring women empowerment and strengthening grassroots level democratic institutions. Approximately two-third of works taken up under MGNREGA are related to water conservation and other activities with positive impact on agricultural productivity. A large number of MGNREGA workers are small and marginal farmers. Scheduled Castes and Scheduled Tribes account for nearly 47 percent of the total person-days employed. As against the norm of 33 per cent, women's participation in the scheme is upwards of 50 percent (e.g. 51.3 percent in 2012-13, 52.8 percent in 2013-14 and 54.9 percent in 2014-15). The average wage has risen from Rs. 65 in 2006-07 to Rs. 144 in 2014 (per person per day). In an important development, MGNREGA has been notified by the Ministry of Finance under Direct Benefits Transfer (DBT) scheme for all districts in the country. On the negative side, as against the guaranteed 100 days of wage employment to one person in each household annually, MGNREGA's average achievement has been less than 50 days except in 2009-10 when it touched about 54 days.

8.5 RECENT MEASURES OF POVERTY ALLEVIATION: POST-2010

Three important measures have been initiated during the post-2010 years. These are as follows.

8.5.1 National Food Security Act, 2013

India has had a long history of maintaining a public distribution system (PDS) whereby the government offers subsidised food grains to the citizens. Originally, the system was universal but was later made selective to target the poor. The National Food Security Act (NFSA) of 2013 specifies that 75 percent of rural and 50 percent of urban populations are eligible for five kilograms of food grain per person per month at subsidised prices. A small subset of extremely poor households is provided seven kilogram of food grain under the programme. In broad terms, the PDS works on the basis of government procurement of foodgrains at pre-specified Minimum Support Prices (MSP) in selected regions of the country. It then offers this grain to the states which in turn pass them on to beneficiaries through a vast network ending with the PDS shops.

8.5.2 Direct Benefit Transfer

Two key instruments viz. Jan Dhan bank accounts and biometric identity cards (Aadhar) are aimed at revolutionising the anti-poverty programmes by replacing the current leaky distribution of benefits under various schemes by the Direct Benefit Transfer (DBT) method. Under MGNREGA, in which direct transfers of wages have already begun, the employer records employment of a worker in a central database using the Adhar identity. This ensures a transfer of the wage payment from a central government account to the worker's bank account. The worker can then access that account via mobile or a banking correspondent. The government introduced certain insurance schemes for Aadhar-linked bank accounts. For instance, RuPay cards to more than 10 crore beneficiaries who will get a benefit of personal accidental insurance of Rs. 1.00 lakh per household have been issued. There is also a life insurance cover of Rs. 30,000. The major shift in DBT is that it targets households covering both rural and urban areas.

8.5.3 Housing for All, 2016

Merging the two rural-urban housing schemes of Indira Awas Yojana (IAY) and Rajiv Awas Yojana (RAY) a new programme of 'Housing for All (Rural and Urban)' has been launched in 2016. The programme aims at providing pucca houses with basic amenities of water, sanitation, electricity and broadband for all by 2022. If successfully implemented, the programme has the potential of resulting in increased investment creating much needed decent jobs across the country. There are, however, several challenges in the successful implementation of this scheme. First, affordable housing is not possible unless land is made available for the purpose. Issues related to the Urban Land Ceilings Act (1976) need to be addressed in this regard.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) How is nutrition status an important determinant of poverty?

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2) How is credit useful in alleviating poverty?

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3) What role does insurance play in combating poverty?

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4) How does sustained rapid growth help in reducing poverty?

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5) In what way ‘agricultural growth’ is important to combat poverty?

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6) In what way does DBT aims at revolutionising the antipoverty programmes in India?

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8.6 LET US SUM UP

Some poverty measures like the head count ratio are simple to compute but are less efficient in capturing the severity of poverty. Measures like PGI and SQGI are superior as they take into account the severity of poverty. In India, estimates of poverty have been developed by taking into account the consumption pattern revealed by the NSSO consumer expenditure surveys. Taking a minimum basket of consumption needs, to which more recently some non-food items have also been added, poverty lines are determined equivalent to a level of income required to access the basic needs. Estimates made from time to time have varied from a poverty line income of Rs. 20 per month per capita for rural regions in 1961 to Rs. 972 around 2010. Many poverty alleviation schemes have been launched which have contributed to reducing the proportion of poverty level persons in the population. More recently, in the post-2000 years, the launch of MGNREGA, DBT, VAS, gradual extension of MDMS to different levels of education, etc. are some of the government initiatives aimed at plugging the leakages of resources and ensuring targeted delivery.

8.7 SOME USEFUL BOOKS

1) Datt Gaurav and Martin Ravallion (1992). ‘Growth and Redistribution Components of Changes in Poverty Measures: A Decomposition with Applications to Brazil and India in the 1980s." *Journal of development economics* 38, No. 2 (1992): 275-295.

2) Gillis Malcolm, Dwight H Perkins, Michael Roemer and Donald R. Snodgrass (1992). *Economics of Development,* No. 3, WW Norton & Company Inc.

3) Gupta Akhil (2012). *Red Tape: Bureaucracy, Structural Violence and Poverty in India,* Duke University Press.

4) Kohli, Atul (1987). *The State and Poverty in India: The Politics of Reform,* Cambridge University Press.

8.8 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Poverty refers to a lack of minimum level of income, or material possessions, due to which one is not able to meet the basic needs of food, clothing and shelter. Technically, it is defined by the concept of ‘poverty line’ which refers to the line indicative of the minimum needs to support oneself productively.

2) Relative poverty takes into consideration an individual’s social and economic status in relation to that of others in the society. Absolute poverty is what we have stated above i.e. absence of minimum income or wealth to enable the purchasing of basic needs like food, clothing and shelter.

3) Poverty is measured by the income approach or the consumption approach. The latter includes consumption made not necessarily by spending money i.e. food received in exchange for wages. In the income approach it is defined as the money required per day to purchase the basic needs. Both are subject to change over time.

4) The approaches did not measure the undernourishment or malnourishment. It also did not take into account the need to meet the basic education and health expenses.

5) This is defined as the ratio of number of persons below poverty line to total number in the population. It does not therefore reveal the severity or extent of poverty.

6) While the headcount ratio for two regions having the same number of persons below the poverty line would be equal, their PGI would be different enabling the policy planner to focus on targeted assistance in the region. A limitation of PGI is that it is not sensitive to the degree of inequality between the incomes of poor households or individuals.

7) By using weights proportionate to the poverty gaps, the SPGI overcomes the lacuna of PGI which assigns equal weights to all those who are poor. In effect, you can observe this difference from the fact that the ratio for PGI is commonly multiplied by '1' [i.e. $\left(\frac{Z-Y_i}{Z}\right)$ is multiplied by '1'] for all those who are poor whereas in SPGI it is: $\frac{G_i}{z}$ multiplied by $\frac{G_i}{z}$.

8) Sen's measure takes into consideration what is centrally considered by all three measures viz. the headcount ratio (number of persons below the poverty line), PGI (intensity of poverty) and SPGI (distribution of poverty within a group). It is actually the weighted average of headcount and the poverty gap measures.

9) Whereas only the food items were considered in the earlier surveys, post-2000 non-food items also were taken into account.

10) Expressed as monthly per capita expenditure, the estimates for rural poverty have varied from Rs. 20 in 1961 to Rs. 49 in 1974 and Rs. 810 in 2000. Post-2010, the rural poverty is estimated at Rs. 972, while the urban poverty level is placed at Rs. 1407 mark.

Check Your Progress 2

1) By resulting in lack of mental and physical development of new born children, low birth weight of children by undernourished mothers, lack of child rearing and caring practices, etc.

2) It can help poor family invest in better healthcare and education of children. It can also help them set up microenterprises.

3) Social security insurance, extended without need for prior enrolment and premium burden, can play a useful role by providing coverage for major tertiary healthcare which are costly and unaffordable by poor households.

4) In two respects: (i) by creating jobs and raising real wages; and (ii) by leading to growth in government revenues allowing for increased social sector investments.

5) In two ways: (i) improve the performance of agricultural sectors; and (ii) create jobs in industry and services in both rural and urban areas.

6) Aimed at country wide coverage, and by linking payment and subsidies to the poor workers directly into their bank accounts, the major lacunae of pilferage of public funds is sought to be curtailed through the DBT.

UNIT 9 INEQUALITY[*]

Structure

9.0 OBJECTIVES

After reading this unit, you will be able to:

- define inequality;
- describe the types of inequality, differentiating in particular, between horizontal inequality and vertical inequality;
- indicate the measure of inequality in income given by Gini (Gini coefficient) with the expression used for its computation in a sample data;
- analyse the trends in inequality in terms of 'income, consumption and nutrition' in India;
- discuss the issue of regional divergence in inequality in terms of 'standard of living' and 'sectoral growth' profiles in India; and
- examine the concept of 'sectoral divergence' in inequality in a comparative profile of the pre- and post-reform years in India.

9.1 INTRODUCTION

The dictionary meaning of **Inequality** is 'an unfair situation in the society where some people have more opportunity, income, etc. than others'. It is the difference in social status and wealth or opportunity between people or groups. Inequality in economics means the difference in the economic well-being among individuals, groups or countries. Such inequality depends upon people's disability, ethnic background and gender. A broad distinction is thus

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made between 'inequality in outcome' and 'inequality in opportunity'. The former occurs when individuals cannot posses equal level of material wealth which indicates the state in which people live in dissimilar economic conditions. Inequality in opportunity, on the other hand, is concerned with ensuring a common starting point. Introduced by Prof Amartya Sen, through his capability approach, well-being under inequality of opportunity is defined in terms of 'the people's freedom to choose and act', both of which must be provided by the state as a matter of 'right' under the 'social justice theory'. Apart from these two basic distinctions, there are many other specific types of inequality. For instance, inequality can be defined in terms of income, consumption and nutrition. It can also be defined in terms of 'inequality among groups' (called horizontal inequality), and 'inequality among individuals' (called vertical inequality). To have an idea of different types of inequalities, we have different measures. In this unit, we shall be dealing with these concepts and issues.

9.2 TYPES OF INEQUALITY

Broadly, inequality is distinguished as economic inequality and social inequality. Economic inequality mostly means 'income inequality' which translates into inequality in consumption, nutritional and living conditions. Social inequality, on the other hand, has multiple dimensions of which two major ones are: (i) political inequality and (ii) inequality in opportunities (arising from opportunities to access education and health services).

Income inequality shows the extent to which income is unevenly distributed among the population. It could be the unequal distribution of household or individual income. Income inequality is often presented as percentage of income to a percentage of population e.g. 70 percent of a country's income is controlled by 20 percent of the country's population. From this point of view, income inequality is associated with the idea of 'fairness' or 'justice' since it is generally considered 'unfair' if the rich have a disproportionally large portion of a country's income. The causes of income inequality could vary by region, gender, education and social status. There is a lack of consensus among economists on the implications of income disparity and on whether it is ultimately positive or negative.

In India, income inequality has grown since the 1980s; top 10 percent of earners had 30 to 35 percent of national income in the 1980s, but of late (2016) the percentage share of income of the top 10 percent has increased to 55 percent (World Inequality Report, 2018). Such a trend is interpreted as a 'widening of disparity between high earners and low earners' or 'increasing income inequality'. Social inequality can be viewed in many ways. It could be concerned with the type of opportunities needed to enhance income (e.g. achieving equality in opportunities to avail educational and health services) or inability to mobilise to have their voice heard (e.g. political inequality). They are concerned with the circumstances which are beyond the control of individual human beings but can be made good either by the state or by organised mobilisation.

9.2.1 Horizontal Inequality and Vertical Inequality

Inequality can be differentiated from the perspective of inter-group (i.e. between groups) or intra-group (i.e. within a group) inequality. Based on this, two types of inequalities are distinguished viz. horizontal inequality and vertical inequality. Horizontal inequality refers to inequality among culturally defined or constructed groups (i.e. inter-group e.g. by ethnicity, religion). There is growing evidence that the nature and level of horizontal inequality are important determinants of the 'risk of violent conflict'. Group inequality generates powerful grievances which leaders can use to mobilise people to political protest. While such mobilisations might themselves work as instruments to reduce inequality through benefits extended by the government in response to organised protests, from an economic standpoint, focusing on reduction of horizontal inequality is particularly important in conflict-prone societies. This is because violent conflicts are known to undermine development and increase poverty.

Vertical inequality refers to inequality among individuals or households. The nature and extent of vertical inequality are important for a number of reasons. One is that of creating a just society because happiness tends to be higher in an egalitarian or more equal society. Secondly, the extent of inequality, for any given national income per capita, determines the level of poverty. The millennium development goals (MDGs) are concerned with the number of individuals living in poverty in the world as a whole. Thirdly, there is evidence that a more equal economy grows faster. Hence, reduction of vertical inequality becomes an economic objective. Fourthly, higher inequality is generally associated with higher rates of criminality. In view of these, developing policies to reduce vertical inequality are important.

Hence while it is important to tackle both types of inequalities, for countries at risk of conflict, it is particularly important to focus on reducing horizontal inequality especially where there have been a major past source of conflict. While vertical inequality is typically measured in terms of income, and occasionally assets, the measurement of horizontal inequality extends to a broad range of political, economic and social variables.

9.3 INEQUALITY IN INCOME, CONSUMPTION AND NUTRITION IN INDIA

A number of programme have been implemented by the government of India to help raise the income of poor households by giving them 'wage employment' opportunities thereby reducing the ill-effects of income inequality. Given that a large number of poor are uneducated and therefore unskilled, such employment programme are run to ensure a fixed number of days of employment, sometimes on 'food for work' basis, mainly to assist poor families subsisting below the poverty line. A detailed account of the efforts made in this direction is provided in the next unit on Employment and Unemployment (Section 10.3). For the purposes of this section in the current unit, we shall see what has been the trend (i.e. the impact of the efforts made over time) in terms of 'income, consumption and nutrition' inequalities in India over the past seven decades.

9.3.1 Income Inequality

Inequality

India is the second most unequal country globally with millionaires controlling 54 percent of its wealth (amounting to 5600 billion dollars). It is among the 10 richest countries in the world and yet the average Indian is relatively poor. Major reasons behind this income inequality, for any country in general, are: (i) highly unequal asset distribution; (ii) inadequate employment generation; and (iii) differential regional growth. In particular, for India, major causes of income inequality could be identified as follows.

As stated before, vertical inequality is typically measured in terms of income and assets. For assets, in rural areas, landholdings are typically considered. The classes of landholding in India (based on the size of land owned where 1 hectare is equal to 2.47 or roughly 2.5 acres), are distinguished for the following six classes: (i) landless (below 0.002 hectare); (ii) marginal (0.002 to 1 hectare); (iii) small (1-2 hectare); (iv) semi-medium (2-4 hectares); (v) medium (4-10 hectares) and (vi) large (more than 10 hectares). Further, for the purpose of this classification, the social class of population is considered as a secondary variable. The social class is classified into four major classes viz. (i) scheduled caste (SC), (ii) scheduled tribe (ST), (iii) other backward classes (OBC) and (iv) others. Data on land holding, across different social classes, are collected and published by NSSO (national sample survey organisation). The latest data available in this respect for 2010-11 (published in the 70th round of NSSO in 2013) shows the following trend:

- 75 percent of total operational holdings are marginal holdings with another 10 percent of holding coming in the small class. About 7 percent are landless (i.e. less than 0.0002 hectares). Thus, a total of 85 percent of operational holding belong to the 'small and marginal' segment operating in a cultivable area of less than an acre. In terms of the total area operated they account for about 44 percent. Thus, the average holding is typically very low. On the other hand, large holdings (i.e. area of above 10 hectares) are less than 1 percent (0.7 percent) of total holdings but account for nearly 11 percent of the total cultivated area. The extent of inequality in land holdings is thus apparent but can be further gauged by an indicator like Gini.
- The Gini-coefficient for concentration of land by social category of ownership is 0.8 for the SC, 0.7 for OBC and 0.6 for ST. Since the value of Gini closer to 1 means more inequality, it follows that the class of people below the social rung is also the ones at an absolute disadvantage in respect of the ownership of landholdings.
- Due to easy availability of finance from banks and other financial institutions, large industrialists belonging to the private corporate sector have acquired a high degree of concentration of assets/wealth.

The consequences of such high income inequality are: (i) class conflict; (ii) political domination; (iii) exploitation; (iv) creation of monopoly; (v) suppression of talent by undemocratic means; (vi) moral degradation; and (vii) promotion of unequal capital formation.

9.3.2 Consumption Inequality

Consumption inequality is measured by the data on Monthly Per Capita Expenditure (MPCE) in rupees at MMRP (modified mixed reference period) levels. Until 1993-94, the poverty line was based on URP (uniform reference period) data which involved asking people about their consumption expenditure across a 30-day recall period. Since 1999-2000, the method is changed to collecting data according to the 'mixed reference period' (MRP). Under the MRP, data on *five less-frequently used items* are collected over a one year period and for other items the 30-day recall is adopted. The low-frequency items include expenditure on health, education, clothing, durables, etc. Currently, all poverty line data are compiled using the MRP method. In the MMRP method, for some food items, instead of a 30-day recall, a 7-day recall is adopted. This is believed to provide a more accurate reflection of consumption expenditures. With the collection of data by the new method, consumption expenditures for people in both urban and rural areas are observed to have gone up by 10 percent to 12 percent. This shows that people could better recall their food expenditure over a shorter 7-day period than over the longer 30-day period. The higher expenditures, combined with the high population density around the poverty line means that the poverty rate for India (for 2011-12) has come down sharply. By states, the rural-urban gap in consumption is wider for Jharkhand, Karnataka, West Bengal and Odisha (gap is more than 90 percent of rural MPCE) whereas in Bihar, Kerala and Punjab the gap is less than 35 percent. The average rural-urban gap for India as a whole is also 82 percent. This is despite the fact that for rural India the MPCE has consistently increased from Rs. 160 in 1993-94 to Rs. 220 in 2011-12 (at constant 1987-88 prices). The corresponding figures for urban India are 265 and 400. The rural-urban gap has thus increased from 65 percent in 1993-94 to 82 percent in 2011-12.

Gini-Coefficient: This is the widely used method to measure income and consumption inequalities. It measures the degree of concentration in the inequality of a variable in a distribution of its elements. It ranges in its limits between 0 and 1 where it assumes the value 'zero' when there is perfect equality in society. The Gini-coefficient gives the summary figure for Lorenz curve which first ranks the population according to different levels of consumption/income and then plots the 'cumulative proportion of consumption/income against the cumulative proportion of the population enjoying that level of consumption/income' (Fig. 9.1). The Gini coefficient takes the theoretical maximum value of 1 when in a population the income level of every individual except one is zero. The Gini-coefficient is calculated as: ***G** = **area** AEDF/**area** AEDB*. Since this lies between zero and one, the inequality increases as the index moves from zero to one. In empirical exercises the Gini-coefficient is calculated by the formula:

$$G = \frac{1}{n}\left[n + 1 - 2\left(\frac{\sum_{i=1}^{n}(n+1-i)Yi}{\sum_{i=1}^{n}Yi}\right)\right]$$

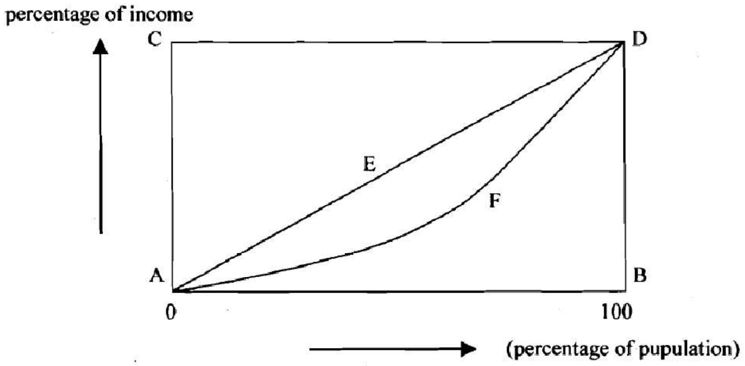

Fig. 9.1: The Lorenz Curve

9.3.3 Nutritional Inequality

The gap between the nutritional needs of the body and the absorption of nutrition by the body is taken as the extent of malnutrition. The concepts underlying malnutrition and its measurement have already been studied by you in Unit 7 (Sub-section 7.2.1). To recall, under-nutrition is measured by indicators like under-weight, stunting and wasting. *Wasting* represents the failure to receive adequate nutrition. Children whose weight-for-height (WAZ) is below minus three standard deviations (–3 SD) from the median of the reference population are considered to be *severely wasted* and those below –2 SD as *wasted*. The height-for-age (HAZ) index is an indicator of linear growth retardation and cumulative growth deficits. Children whose height-for-age Z-score is below –2 SD from the median of the reference population are considered *stunted* or acutely malnourished. Similarly when this Z score is less than –3 SD, the child is called severely stunted or chronically malnourished. Stunting reflects failure to receive adequate nutrition over a long period and is affected by recurrent and chronic illness. Weight-for-age is a composite index of height-for-age and weight-for-height reflecting both acute and chronic malnutrition. Children whose weight-for-age is below –2 SD from the median of the reference population are classified as *underweight*. To capture the long-term malnutrition among children, *stunting* is considered as the most important measure. As per the different NFHS survey reports, except for *stunting*, the malnutrition level in India is falling in all other respects over the years. This situation is alarming as it indicates long term impact of malnutrition.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) Define inequality distinguishing it between ‘inequality in outcome’ and ‘inequality in opportunity’.

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2) Do you agree that the inequality has increased over the recent years in India? Why?

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3) Distinguish between ‘horizontal inequality’ and ‘vertical inequality’.

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4) Give reasons as to why it is important to focus on reducing the horizontal and vertical type of inequalities?

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5) Why is India regarded as one of the most unequal economies? What reasons are attributed to this situation?

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6) State the six classes into which the landless in India are classified. What does the distribution of these six classes by social groups indicate? What are its consequences?

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7) How is consumption inequality measured in India? What does its trend reveal?

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8) In Sub-section 9.3.2, you have noticed a progressive State like Karnataka figuring with relatively slow progressive states like Jharkhand, W. B. and Odisha and a relatively slow progressive state like Bihar, figuring with more progressive states like Kerala and Punjab. What would you say, could be the possible reason for this?

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9) How is long term malnutrition among children captured? What has been the trend in this respect in India?

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9.4 REGIONAL INEQUALITY

According to the neo-classical growth theory, in the initial stages of capital growth the marginal productivity of capital will be increasing, with a corresponding decline in labour absorption. However, in the long run, if it results in labour augmenting technical progress, then the declining effect of labour absorption would be reversed. As a result, the per capita income of regions will increase, and if all states/regions pursue proactive policies of growth, the growth rates would show a tendency to converge to a steady state. In other words, it would result in a reduction in income inequality among those regions over time. This gives rise to the issue of testing the hypothesis of 'divergence or convergence' in a situation where the different states would be experiencing differing growth rates in their SDP owing to their intensity of policies pursued. In this context, there have been concerns that regional inequality in India has increased after the introduction of economic reforms in 1991. While some studies support this concern, there are others which do not. In such a situation, what conclusions can be drawn in this regard? In this section, the issue of divergence in regional inequality will be discussed in terms of 'standard of living' and 'sectoral growth'.

9.4.1 Standard of Living

Using the results of computed Gini coefficients, many studies have reported that there is no conclusive evidence for increasing inequality in terms of SDP in India across the rural and urban households in the states for a longer period like the 1980s and the 1990s. However, during shorter time spans like the immediate years following the introduction of economic reforms (1993-2000), some states have registered increased urban inequality. However, no state has registered increase in consumption inequality, particularly in rural households. Even in terms of income, while some studies have shown convergence among some states in terms of SDP, there are studies which have reported the opposite i.e. divergence. Evidently, it depends on whether we are making a comparison of developed states with progressive states or whether we are comparing fast growing states with slow growing states. In other words, the differing results revealed by studying only the per-capita state SDP are bound to reveal differing trends showing convergence among some states and divergence among some others. Moreover, it would only be based on income as the measure of growth. On the other hand, if one looks at regional inequality measured in terms of a composite set of indicators like per capita expenditure, head count poverty ratio, literacy rate, formal education enrolment, infant mortality rate, life expectancy, access to safe drinking water and access to housing made by relatively permanent materials, the results would be more reliable. As we know, at present, the HDI constructed by employing three indicators viz. life expectancy, education and per capita income, used as a measure of ‘standard of living’ of the people, is the best choice for this. Analysis based on HDI shows that in India after 1990s, standard of living has not fallen in general over the states. However, across the regions, divergence is observed in respect of the following:

- there is a east-west divergence after liberalisation with the western part of the country having increased its share of income. But there is no strong north-south division in terms of the relative income shares;
- most regions which are better performing are in urban parts of the country i.e. the rural India has benefited less in relative terms;
- liberalisation has not improved the agricultural rain-fed regions; and
- while some states are doing consistently well in terms of all regions (e.g. Karnataka, Kerala, Punjab and Haryana), there are others with marked disparities in their performance (e.g. Andhra Pradesh, Madhya Pradesh and Maharashtra).

9.4.2 Sectoral Divergence

Making an analysis by principal sectors (i.e. agriculture, industry and services), some studies have shown that the reforms have made no impact on the regional inequality for the agricultural sector. But as far as the industrial and the services sectors are concerned, the reforms have completely changed the trends in terms of their contributions to GDP from the constant trends observed during the 1980s to the sharply increasing trends observed during the 1990s. For the agricultural sector, on the other hand, a moderate upward trend in regional inequality within the sector is noted. Despite this upward trend, a strong decline in its relative size has ensured that the contribution of this sector to regional inequality has remained almost constant over the two decades of 1980s and 1990s. The rising trend in regional inequality within the sector is explained as partly due to the high growth rate of agriculture in some states (e.g. Madhya Pradesh, Andhra Pradesh, Assam) with a stronger agricultural base and partly due to the corresponding stagnation and shrinking of the sector in the agriculturally backward states like Bihar and Odisha. Since the location of agricultural production is tied to arable land, this divergence cannot be explained by the 'agglomeration effect' discussed in the literature. Another plausible explanation for this divergence may be that the more prosperous agricultural states have the surplus to make the necessary investment in irrigation, warehouses, cold storages and other infrastructure that sustained the growth rate of agriculture in these states, while the poorer states with no surplus either stagnated or shrunk further in the absence of sufficient investment.

In so far as the industrial and the services sectors are concerned, owing to the relative size of the two sectors and their inter-linkages to the economy, there was a fall in regional disparity in the pre-reform period but a distinct rise in the post-reform period. In other words, the industrial and services sectors have registered a fall in inequality before the reforms due to the centrifugal effect (i.e. a receding effect) and a rise due to the centripetal effect (i.e. a galvanising effect) post-reforms. The reason for this is conjectured to be the policy of the government in the pre-reform period, to check the regional divergence by focusing on expansion of the industrial and services sectors through multiple channels. One channel worked through the public sector, where, a sizeable part of the public investments were made in relatively backward areas. The other channel worked through the private sector, which was encouraged through the use of fiscal incentives and industrial licensing, to invest in these areas. In other words, while the state played a crucial role in bringing down inequality in these two sectors during the pre-reform period, in the post-reform period, the expansion of the industrial and service sectors contributed to the observed divergence due to factors like: (i) dismantling of the industrial licensing system giving the private sector the freedom to choose its location and minimise the transportation costs which triggered the shift in their production base to the metropolitan areas in the richer states; (ii) the reforms gave a boost to export-oriented production which contributed to increasing the share of exports to GDP ratio from 8.5 percent in the 1980s to about 15.5 percent in the 1990s; and (iii) the manufacturing exports sector minimised its transportation costs to international markets by preferring to locate itself near the coastal areas with good infrastructure. Since these facilities were mostly available in the relatively developed states in the western and the southern parts of the country, such a preference increased the regional inequality between these states and the poorer ones.

There was a modest rise in the average exports ratio in the services sector from about 4 percent in the 1980s to about 5.5 percent in the 1990s. The constituents of services sector which benefited from these exports are the information technology and the financial services. As both these sectors needed highly developed telecommunication infrastructure and high quality human capital, both of which were available in the metropolitan areas, the growth of these sectors in these areas contributed to increasing the gap in inequality between the relatively underdeveloped regions and the more prosperous ones. Further, the reforms contributed to shifting the focus of the public sector to providing utilities and infrastructure. This resulted in increasing the average share of electricity, gas and water (i.e. utilities) in the total industrial GDP which went up from about 24 percent in the 1980s to about 32 percent in the 1990s. Likewise, the average share of banking and insurance (a part of the financial infrastructure of the economy) went up from about 13 percent in the 1980s to about 20 percent in the 1990s. Since the utilities and infrastructure are in higher demand in developed regions, a shift in the public sector's investment in these services sectors, diminished the capacity of the government to check regional divergence through public investments.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What does the analysis of regional performance based on SDP reveal? Is it reliable? If not, what is the alternative to study regional performances by different states?

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2) In what respects divergence in inequality is found among the Indian states?

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3) In terms of sectoral profiles, in a comparison of pre and post reform periods, how has the agricultural sector fared in respect of regional inequality?

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4) State the two reasons advanced for the inequality observed in agricultural growth between the states in India.

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5) What trend is evidenced between states in respect of 'industry and services' sectors on the expected diverging or converging character (to either accentuate or reduce) inter-regional inequality?

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6) State the three reasons which contributed to increased regional inequality between the states which registered higher growth and the states which registered lower growths.

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7) Which are the three services sector constituents which contributed to the higher growth resulting as a consequence in increased inter-regional inequality? By what measure did these three constituents benefit in terms of their relative GDP shares between the pre-and the post-reform years?

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9.5 LET US SUM UP

Inequality can be of different types. Broadly, it can be classified into economic and social inequality. Related to the former, inequalities in income, consumption and nutrition are identified. Related to the latter, political and opportunity inequalities are identified. In particular, inequality in opportunities, which results in inequality in outcome, can be identified to the ease or lack of 'access to education and health services'. A further differentiation is made between horizontal inequality and vertical inequality. The former refers to inequalities between groups based on factors like caste, religion, ethnicity, etc. The latter relates to inequality in household or individuals. Consumption and nutritional inequalities lead to population with stunted growth impacting heavily on the nation's productivity and growth. Taken together, the various types of inequalities could affect the standard of living or the socio-economic well-being of the population. In India, over the recent years, there is evidence of divergence in income-inequality but convergence in consumption inequality. This suggests that all regions have prospered but some have prospered faster than others leading to the observation that there is a 'divergence' experienced in the regional inequality between the Indian states. This observation has occurred during the post-reform years which unleashed the productive spirits of the private sector owing to relaxation in industrial licensing policies. The public sector investment also has seen a diversion: from the agricultural and backward sector investments in the pre-reform years to 'infrastructure and utilities' sector in the post-reform years. Since such investments have taken place in some states/regions endowed better in terms of the geographical or infrastructural bases, the inequality between the backward and the forward states have widened in the recent two decades. This is the feature of Indian economy which is referred to as the 'divergence in inequality' from an inter-regional perspective.

9.6 SOME USEFUL BOOKS AND REFERENCES FOR FURTHER READING

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3) Piketty, Thomas (2015). *The Economics of Inequality,* Harvard University Press.

4) Rao, M. Govinda, Richard T. Shand, and Kali P. Kalirajan (1999). Convergence of Incomes Across Indian States: A divergent view, *Economic and Political Weekly*: 769-778.

5) Ravallion, Martin (1997). Can High-Inequality in Developing Countries Escape Absolute Poverty?, *Economics Letters* 56, No. 1: 51-57.

9.7 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Defined as the difference in social status and wealth, the former depends upon people's disability, ethnic background and gender while the latter is concerned with ensuring a common starting point as a matter of 'right' by the state.

2) During the 1980s, the top 10 percent of high income earners owned about one-third of total national income. But in recent years, this proportion has shot up to over 50 percent.

3) Horizontal inequality refers to inequality among culturally defined or constructed groups. Vertical inequality refers to inequality between individuals or households.

4) Horizontal inequality is known to feed on development increasing poverty levels in the population. Vertical inequality impacts on the creation of a just society, reduction of poverty levels, to aid faster growth of economy, have a lower degree of criminality in society, etc.

5) Millionaires control more than half of its national income while the average Indian is relatively poor. Major reasons in general are: (i) highly unequal asset distribution; (ii) inadequate employment generation; and (iii) differential regional growth.

6) Landless, marginal, small, semi-medium, medium and large. Distribution by land into social category shows a high Gini ranging from 0.6 to 0.8 indicating high inequality among the vulnerable sections like the SC, ST and OBC. The consequences of such high income inequality are: (i) class conflict; (ii) political domination; (iii) exploitation; (iv) creation of monopoly; etc.

7) By MPCE (monthly per capita expenditure measured in rupees). There has been a steady increase in the MPCE measured in constant prices over time and consequently a significant reduction in proportion of people living below the poverty line. However, there are states where the gap between the urban and rural MPCE differ by more than 90 percent. Even at the all-India level the gap is 84 percent.

8) In Karnataka, the urban MPCE is very high. Likewise, in Bihar, both the rural and urban MPCEs are very low. This has resulted in these states figuring among the ones with which we may not expect to find them. But this feature explains the difference convincingly and hence their places are not misplaced. The example points out to the need for careful observation before interpretation of empirical figures.

9) By using 'stunting' as an indicator. The situation in this respect is alarming as there has been no reduction in this respect over the different periods of NFHS reports and it indicates long term impact of malnutrition as not coming down in India.

Check Your Progress 2

1) It shows divergence in some cases and convergence in some others. Based only on income, this is bound to be the case. An indicator like HDI is better to be adopted for a comprehensive assessment.

2) There is evidence of east-west divergence, but no such divergence is noticed for north-south states. Rural India has benefited relatively less. Agricultural rain-fed regions have lagged behind.

3) A moderate upward trend in regional inequality is noticed. But due to the shrunken size of the agricultural sector itself, the increase is not pronounced but has remained more or less constant.

4) One, stronger agricultural base in some states with the corresponding shrinkage experienced in agricultural weaker states. Two, the former also had surplus to invest in required infrastructure which the latter did not.

5) Two concepts of effects viz. the centripetal effect and the centrifugal effect are used to describe the trend in growth of 'industry and services' among the Indian states. The former is referred for the 'receding effect of demand' due to low investment in the pre-reform period. The latter is referred to for the 'surge in demand' owing to proactive policies unleashed by liberalisation measures.

6) Licensing was used as an instrument to channelise resources to backward areas for promoting the setting up of industries in the pre-reform years. This kept the inequality trends more balanced. In the pro-reform years, its dismantling led to investments getting made in those areas with better infrastructure (i.e. the centrifugal effect) which were in metropolitan cities and other parts of richer states. Coastal areas also benefited under the pro-reform industrial promotion policies to the disadvantage of states not endowed with this geographical advantage.

7) Information technology, utilities & infrastructure, and banking & insurance. The respective increase in their share in GDP, between the pre- and the post-reform years, was from: 4 to 5.5 percent, 24 to 32 percent and 13 to 20 percent.

UNIT 10 EMPLOYMENT AND UNEMPLOYMENT[*]

Structure

10.0 OBJECTIVES

After reading this unit, you will be able to:

- state the importance of employment and the difficulties in its measurement in a predominantly agrarian economy;
- define the various concepts of employment and unemployment;
- distinguish between the 'workforce participation rate' (WFPR) and the 'labour force participation rate' (LFPR);
- discuss the major features of employment policies pursued in India during the decades of 1950s to 2002;
- describe the changes introduced in employment planning in India during the post-2002 years;
- outline the concept of 'informal economy'; and
- list the social security schemes for unorganised sector workers in India in recent years.

10.1 INTRODUCTION

Employment is important from various points of view. It provides the basic means for earning income to a household from which the financing of its expenditure is facilitated. It offers the means for educating the children, the potential future work force, affording the nation in the process to build up its human capital. By spending on food and nutritional needs, it helps in the

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maintenance of the required health for a productive household. After meeting such basic needs, with the setting aside of a part of the household income as savings, the cumulative savings becomes an important component of nation's investment to aid further the process of economic growth. This generates multiplier benefits in many other sectors of the economy. A nation's economic health is indicated by the extent of domestic savings (expressed as a percent of GDP) and a small rate of 'unemployment'. It is therefore important for an economy to have a periodic assessment of its employment requirements and implement suitable policies required for generating the type of employment required. Since the latter depends on the structure of the economy, particularly in terms of the skill composition of its workforce, an important policy decision rests on the mix of labour-intensive and capital-intensive methods of production practices to be adopted. It is important to note that employment is a resulting factor (i.e. it is a result of appropriate policies pursued) and in its mismatch an economy would face the consequences of either lower growth (with higher unemployment levels) or a situation of 'jobless growth' (i.e. income growth not accompanied by enough employment generation). Both these situations, due to their linkage with the overall macroeconomic stability required, are unhealthy for the economy. Against this background, the present unit deals with the concepts and issues of employment and unemployment as is applicable for a predominantly agricultural or agrarian economy like India. In particular, it deals with the issues of their measurement and the employment polices pursued. Besides these two aspects, we will also study about the concept of 'informal economy' and in its light the importance of strengthening social security provisions for the poor.

10.2 CONCEPTUAL OUTLINE

As we have already seen in Unit 3 of this course BECE-145, 48.9 percent of workforce in India is still dependent on agriculture. Even though this percentage has come down from a much higher level of 60 percent in 2000, it is still high enough to make our economy classified as 'agrarian' in its character. In such a situation, the high percentage of 'agricultural labourers' who would be depending on day-to-day wage employment for subsistence, needs to be provided with alternative employment to sustain themselves during the non-agricultural season. The percentage of 'agricultural labour to total agricultural workers' has increased from 28 percent to 55 percent over the period 1951-2011. In this context, it is important to understand how 'employment' is defined and measured.

10.2.1 Employment

An agricultural worker, or a typical person 'seeking work' (whether in rural or urban areas), needs to be assessed for his employment status by a definitional framework which permits the categorisation into 'worker' or 'non-worker' on a day to day basis. This is because such workers may not get work on all the days and, being dependent on their daily earnings, need to seek and work on as many days in a year as possible. In other words, their employment is not on a 'regular basis' with 'paid holiday' (like those in regular salaried jobs) and hence every day is a work seeking day for them. Evidently, a classificatory framework to measure such day-to-day employment status, or its complement the unemployed status, needs to be based on different reference periods so as to capture the varying employment statuses of the persons. In India, such 'employment and unemployment surveys' (EUSs) are being conducted by the NSSO (i.e. National Sample Survey Organisation) in a periodicity of once in 5 years since 1972-73. These surveys are also therefore called as quinquennial EUSs. The EUSs adopt four type of approaches viz. (i) the Usual Status (US) approach; (ii) the Usual Principal and Subsidiary Status (UPSS) approach; (iii) the Current Weekly Status (CWS) approach; and (iv) the Current Daily Status (CDS) approach. The approaches relate to two 'reference periods' viz. a long term reference period of 'one year' (for the US and the UPSS approaches) and a shorter 'reference period' of 'one week' (for the CWS and the CDS approaches). The rationale for adopting the two separate reference periods are to: (i) assess the long term employment status; and where this is not the case; (ii) assess the same from a short term perspective. It thus follows that the two week-based approaches provide a basis for assessing the magnitude of 'chronic' employment or unemployment situation as compared to the former two viz. the US and UPSS approaches which indicates a relatively higher/better employment status.

Under the US approach, a person is categorised as employed if he/she reports having been employed for the greater part of the reference year i.e. more than half or 183 days of the year under reference in a single principal activity. If a respondent does not fall into this segment, his status is then ascertained by the UPSS approach. Under this, his principal time of engagement in any one activity (principal activity) is first determined and then further probed to ascertain his secondary activity i.e. the subsidiary activity. The principal activity is one in which he has worked for maximum time and the subsidiary is one in which he has worked for at least 30 days. Thus, based on the three reference periods (viz. one year, one week and each day of the reference week), three different measures of activity status are arrived at. The activity status determined on the basis of the reference period of one year is known as the usual activity status (US) of a person, that determined on the basis of a reference period of one week is known as the current weekly status (CWS) of the person and the activity status determined on the basis of the engagement on each day during the reference week is known as the current daily status (CDS) of the person. In contrast to this approach adopted by the NSSO, the decadal censuses classify the workers as 'main worker' or 'marginal worker' depending on whether the person was working for more than 183 days of the year or not. The census does not further probe in this direction and hence its estimates of workers are comparable with the US approach of the NSSO. Although, to indicate the seasonal character of employment, the typical instance of a rural agricultural worker is chosen in the above description, the classificatory framework is uniformly applied across the rural-urban divide so as to capture the day-to-day employment status on which a large number of persons depend for their daily earnings. The classificatory framework further requires the simultaneous recording of the 'unemployed status' as outlined below.

10.2.2 Unemployment

The EUSs are also called as the ‘labour force’ surveys. The term ‘labour force’ comprise of ‘employed’ plus ‘unemployed’. The latter, i.e., the unemployed includes those who are seeking employment and, therefore, available for work. In other words, it excludes those who are not voluntarily willing to work. In all the four approaches i.e. US, UPSS, CWS and CDS, respondents are first categorised as those ‘in labour force’ and ‘out of labour force’. The ‘out of labour force’ includes students, rentiers, pensioners, recipients of remittances, beggars, infirm or disabled persons, persons too young to work i.e. children and casual labourers not working due to sickness. In view of this, besides the time spent criterion, the receipt of income (either in cash or in kind or notionally), whether explicitly received or not, is implicitly being taken into account for classifying a person as ‘worker’. The worker so classified is thus an economically active person. The EUSs provide comprehensive estimates of the ‘labour force’ for four broad groups of workers as follows:

- number of persons in the labour force as per the ‘usual status’ by considering the usual principal activity only [hence also called as UPS workers];
- number of persons in the labour force as per the ‘usual status’ by first considering the ‘primary activity’ and then their ‘subsidiary activity’ performed for more than 30 days [called as UPSS workers];
- number of persons in the labour force as per the CWS approach; and
- number of ‘person days’ in the labour force as per the CDS approach.

Thus, under the US and the UPSS approaches, the activity statuses are determined based on the ‘majority time’ and ‘priority time’ criterion i.e. for the ‘principal activity’ under the US and UPSS, the ‘majority time criterion’ is used and for the ‘subsidiary activity’ under the UPSS, the ‘priority time criterion’ is used. In view of this, the US approach is also connotated as the UPS (usual principal status) approach. For the CWS and CDS approaches, due to the shorter spell of time period considered, only the ‘priority criterion’ is applied.

For the purpose of employment planning, it is important to focus on the ‘growth’ in the labour force. Discounting for the backlog of unemployed (i.e. the carry over figure of unemployed from one period to the next), unemployment results when the ‘growth rate of labour force’ is higher than the ‘growth rate in employment’. The labour force in India has marginally declined from 469.2 million in 2004-05 to 468.8 million in 2009-10 (the two major rounds of NSSO for the EUS i.e. the 61st and the 66th rounds for which the data is currently available). Note that rounded without decimal, the number of persons in the labour force has roughly been the same i.e. 469 million during the above period. However, the number of persons unemployed has fallen from 11.3 million in 2005 to 9.8 million in 2010. As a result, the unemployment rate (i.e. unemployed expressed as a percentage of labour force) has decreased from 2.4 percent in 2005 to 2.1 percent in 2010.

Unemployment is thus a phenomenon when 'people who want to work do not find work at a given wage rate' due to lack of availability. It surfaces in many forms like: structural, frictional, cyclical, seasonal, etc. Structural unemployment exists when there are jobs available with people willing to work but are not qualified to do the job. It thus refers to a mismatch in skills caused by 'inadequacies in the educational system' and/or use of inappropriate technology like capital-intensive techniques. Frictional unemployment is caused in periods of economic change like closing of firms, changes in production techniques within the firm, etc. Cyclical unemployment is associated with a downturn in economic activity. Seasonal unemployment refers to fluctuations in the demand and supply conditions from time to time (e.g. post-rabi, pre-kharif times in agriculture). A type of unemployment common in agrarian economies is 'disguised unemployment' which refers to people being employed but with low productivity returns. Broadly, therefore, unemployment in India can be grouped into two types: (i) rural unemployment which is seasonal and disguised under-employment in nature; and (ii) urban unemployment which is structural in nature.

10.2.3 WFPR and LFPR

The WFPR (workforce participation rate) in a country is represented as the proportion of working population to total population. This is also therefore alternatively called as 'worker population ratio' (WPR). The LFPR (labour force participation rate), on the other hand, is defined as the section of 'working plus work-seeking population' in the age-group of 16-64 expressed as a percentage of the total population. It is usually expressed as the number of persons 'employed plus unemployed' per 1000 persons in the NSSO reports. Notice that these rates would differ depending on which class of workers we consider i.e. whether US or UPSS or CWS or CDS. For India, in 2015-16, the LFPR by UPS (i.e. usual principal status) classification, for 'total persons' [i.e. males and females combined] was 50.3. By gender, it was 75 percent for males and 24 percent for females i.e. a huge difference of more than 3 times for males than females. The WFPR for 'total persons' was 48 percent (72 percent for males and 22 percent for females). The unemployment rate was 5 percent for total (by gender, it was 9 percent for females and 4 percent for males). Thus, if the less than one-third of male's LFPR for women points out to social constraints faced by women of at least of a certain order (as there may be women who have voluntarily chosen not to work), the more than two-times the unemployment rate for women than men points out to 'labour market challenges' experienced by women. The disparity between males and females is indeed glaring for which policies to bridge the gender-gap is needed. Relatively, the LFPR for females is higher for the North Eastern and the Southern states and low for the Northern states.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) In agrarian economies, what is a specific feature of a 'worker' requiring to be taken into account for assessing the employment status?

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2) What are the four approaches on which the EUSs are conducted by NSSO? What is the rationale behind these approaches?

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3) How is the term ‘labour force’ defined? How is the ‘unemployment rate’ estimated?

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4) The 2004-05 labour force survey yielded the magnitude of employed and unemployed as 415 million and 13 million respectively. What is the unemployment rate?

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5) Given that the reference period is the same for both the US and UPSS approaches, what is the essential distinction between the two?

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6) Distinguish between LFPR and WFPR. How would you express the glaring differential in terms of LFPR and unemployment rates in India?

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7) State the difference between rural and urban unemployment in broad terms.

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10.3 EMPLOYMENT POLICIES

Given that the employment policies pursued should aim at achieving all types of employment required (i.e. unskilled daily wage employment, employment for semi-skilled and skilled workers, employment for higher skilled and educated workers at different levels), the employment policies followed in India since independence had a broad scope in their implementation. This vision is seen in the thrust of different employment policies and programmes pursued in India right from the initiation of the First Plan period (1951-56) onwards. The efforts of the first few plans were marked with the belief that targeting the overall economic growth rate would suffice to ensure the generation of required employment at different levels. Thus, during the first two decades of 1950s and 1960s policies implemented were in the direction of efforts focusing on sectors with the potential to generate higher levels of employment. In other words, no specific effort to address the wage-employment needs of very poor households was implemented due to the expected percolation effect from the general or overall economic growth. However, in the late 1970s, with the initiation of the IRDP (Integrated Rural Development Programme) programme in 1978, specific efforts to assist the below poverty level household/persons, by wage-employment opportunities, were launched. In the subsequent decades, many specific employment generation programmes (e.g. TRYSEM, RLEGP, DPAP, etc.) were implemented, mainly as supply side response to combat poverty by generating wage-employment avenues. The programmes also aimed at skill development to enable the setting up of self-employment ventures. However, after more than 50 years of experience, with the situation of poor households further becoming acute (particularly after the implementation of economic reforms in 1991), it was realised that employment generation needs to be made a demand-driven effort to enable the potential workers to seek and obtain a minimum number of days of employment in a year. This intent was given the shape of an Act (NREGA) in 2005. We shall now take a brief look at the various policy initiatives made in this direction in two separate periods viz. 1950s to 2000/2002 and in the post-2000 years.

10.3.1 1950s to 2002

In the early 1950s, unemployment was recognised as a problem which can largely be taken care of by focusing on the achievement of faster economic growth. Particular attention was laid on promotion of labour intensive sectors like small scale industry. A close watch on the estimated magnitude of the backlog of unemployment was kept. For instance, by the end of second FYP (five year plan), 1957-62, the estimated unemployment was placed at 5 million with an expected annual addition of 1.5 to 2 million fresh entrants to the labour force. To meet the requirement of employment for this magnitude of persons, it was envisaged that a target of 5 percent annual growth rate in GDP would be adequate to generate employment to take care of both the backlog and the fresh addition to the labour force. In later years, to aid the process of developing the farming community, two special agencies viz. (i) the small farmers development agency (SFDA) and (ii) the marginal farmers and agricultural labour development agency (MFALDA) were established during the Fourth Plan (1969-74). But, despite the thrust for employment generation and achievement of targeted growth rates in GDP, India could achieve a growth rate of an average 3.5 percent through the 1960s and 1970s. While employment grew by an average of 2 percent per annum, the labour force grew faster at 2.5 percent. As a result, the number of unemployed rose to 10 million by 1973-74. In recognition of the required reorientation, the Fifth Plan (1974-79) introduced special anti-poverty and employment programmes. The two programmes/agencies of SFDA and MFALDA were merged into one comprehensive programme in the name of ‘integrated rural development programme’ (IRDP) in 1978. A ‘national rural employment programme’ (NREP) was launched in 1980 with the twin objectives of: (i) providing wage income to rural poor; and (ii) creating rural infrastructure. This was followed in 1983 with the launch of another programme called the ‘rural landless employment guarantee programme’ (RLEGP) with the objective of providing 100 days of employment in selected backward areas in 1983. Though such programmes were able to generate substantial amount of ‘person days of employment’ during any one given year, it did not help to bring down the overall magnitude of unemployment in the country. As a result, the magnitude of unemployment continued to increase making the development strategy of the Seventh Plan (1985-90) to place employment at the centre of its development strategy. Notwithstanding all these thrusts and efforts, even though the decade of the 1980s experienced a relatively faster GDP average annual growth of 5.5 percent, the employment growth was lower at 1.8 percent. Thus, by the end of 1980s, the number of unemployed was estimated to have risen to 14.5 million and to a further 17 million by 1991-92.

A detailed assessment of the employment and unemployment trends was undertaken in the beginning of 1990s by especially factoring-in the likely impact of the process of economic liberalisation introduced in 1991. This assessment became the basis of the employment strategy of the Eighth Plan (1992-97). By taking into account both the openly unemployed plus the severely under-employed, and factoring-in an addition to the labour force of about 35 million during the years 1992-97 and another 36 million during 1997-2002, the Ninth Plan (1997-2002) set a target of achieving a 2.6 to 2.8 percent annual growth in employment. Set with a view to achieving the goal of ‘employment for all’ by 2002, the target was sought to be internalised in the plan strategy through efforts like: (i) overall and sectoral priorities; (ii) policies and programmes aimed at achieving spatial and sub-sectoral diversification of agriculture; (iii) wasteland development; (iv) support by policy framework for development of rural non-farm sector; (v) small and decentralised industrialised sector; (vi) faster growth of informal and services sectors; etc. Despite these efforts, although the economic growth measured by GDP showed impressive results (GDP growth accelerated to 6.7 percent during 1994-2000), employment growth slowed down from 2.7 percent achieved during 1983-93 to 1.1 percent during 1994-2000. In other words, the assumption that a higher growth rate will result in faster employment growth was not realised and the growth process began to be identified as one of jobless growth i.e. higher GDP growth with lower employment content. The growth was marked by an estimated decline in employment elasticity from 0.52 to 0.16.

10.3.2 Post-2002

After 20 years of its implementation, the IRDP was replaced by the Swarnajayanti Gram Swarojgar Yojana (SGSY) in 1999. As per evaluation reports of IRDP, the programme had led to an increase in income in most cases enabling nearly 15 percent of the assisted households to cross the poverty line income level. Despite this, it was realised a renewed effort is needed to mitigate the distress of day-to-day employment seekers in the country. This led to a major initiative of the post-2000 period by way of the enactment of the National Rural Employment Guarantee Act (NREGA) in 2005 to guarantee work up to 100 days of employment in a year to every household in selected poorer districts of the country. A national commission was set up to examine the problems of enterprises in the unorganised, informal sector in 2004 and devise policies and programmes for strengthening the capacity of growth of this sector with high employment potential. Both these steps were a particularly important initiative since the bulk of the workforce is in the 'unorganised' or 'informal' sector of the economy and the critically poor, who belong to this sector, require assured employment on daily-wage basis.

The trends in employment in the post-2000 years is mixed. For instance, the estimates based on the 61st round of NSSO suggest an upturn in the growth of employment during 2000-05. The growth rate in employment is estimated to have been at 2.85 percent per annum over the period 2000-2005 (as against just over 1 percent during 1994-2000). However, employment situation fluctuates widely within a short term time frame. For this reason, it is important to study the same over longer time intervals which may be stated as 10+ years. Such an assessment over a long term frame has to be made over the different quinquennial rounds of NSSO as this is the only source which gives data on employment covering the entire economy (spanning over both the organised and the unorganised sectors of the economy). For this reason, data for 3 long term and 3 short term period, over the period 1983-2010, are presented in Table 10.1.

Table 10.1: Growth Rate (%) in Employment and GDP

Period (Long/ Short)	Employment	GDP	EE
1983-93 (Long)	2.0	5.0	0.40
1994-2005 (Long)	1.8	6.3	0.29
1999-2010 (Long)	1.5	7.5	0.20
1988-93 (Short)	2.4	-	-
1994-00 (Short)	1.0	-	-
2005-10 (Short)	0.2	9	0.02

Source: Papola & Sahu, 2012, p-26.

Such a long term assessment for the three sub-periods, juxtaposed with the corresponding growth rates in GDP, shows that the growth rate in GDP is inversely related to growth rate in employment over the long period of 1983-2010. Employment elasticity, measured as the ratio of growth rate in employment to that in GDP, has also consistently declined. The trend in this is supportive of the hypothesis of jobless growth in the Indian economy over the period 1983-2010. The short-long term comparative profile indicates the sensitivity of growth rate to changes in the short term which averages out when data for long term is considered.

With some difference in its achievement from year-to-year, the results of NREGA's efforts indicate that the Act has succeeded in getting an average number of about 50 days to the participating households which is significantly lower than the maximum provision envisaged at 100 days. However, the programme has contributed to shooting up the average wages in the neighbouring areas of its implementation. The review of MGNREGA (its rechristened name since 2009) suggested many weaknesses like: (i) non-provision of work on demand; (ii) lack of transparency in calculating wages based on schedule of work; (iii) non-payment of minimum wages; (iv) non-payment of wages with the stipulated 15 days of work; (v) use of contractors in spite of prohibition; (vi) non-payment of employment allowance; (vii) non-provision of worksite facilities, etc. Cases of 'fudging' of muster rolls to 'sell' entitlements are also reported. Notwithstanding these instances, the programme has helped create many assets in the areas of: (i) water conservation; (ii) irrigation; (iii) road connectivity; (iv) land development; and 'others'. Of all these, water conservation works has accounted for more than '50 percent' of physical achievements over the five year period of 2007-11. It can therefore be conceded that given its scale of operations amidst poor management capability of village councils (who are supposed to be responsible for its implementation), MGNREGA programmes are better implemented than similar programmes in the past. In 2011, the National Rural Livelihoods Mission (NRLM) was launched as a restructured version of the SGSY.

10.4 INFORMAL ECONOMY

The account on employment generation provided in Section 10.3 above is largely to cater to the wage employment needs of both the rural and the urban poor. They refer to merely the quantitative dimension of employment generation problem. There is also the qualitative dimension in which respect the country has far to go to reach what is described as a 'decent work' level. A distinction can be made in this respect with the term 'wages' as used in the wage employment programmes for 'casual workers' and 'salary' which is given in an assured manner for 'regular workers'. This also brings into picture the dichotomy that exists in the labour markets of agrarian and developing countries like India. The former, i.e., the wage earners subsist in a sector popularly called as the 'informal sector'. Their employment conditions are not governed by any Act or legislation which protects their earnings in times of sickness or post-employment years i.e. old age. On the other hand, a small proportion of workers in the complementary formal or organised sector is covered by at least one such legislative provision and in many cases more than one. The organised or the formal sector of workers is defined as 'those workers working either in public sector organisations or private sector organisations employing more than 10 workers'. As the economy develops, either more and more of informal sector workers can be absorbed in the formal sector, or, the economy may so expand that not only the number of informal sector workers would increase, but even some of the workers in the formal sector might be classified as 'informal sector workers'. The latter refers to the phenomenon of hiring workers in the formal sector on an informal basis by way of contracting out certain non-core works like cleaning, security, maintenance services, etc. The process has come to be referred to as 'informalisation' of the economy. The proportion of 'formal to informal' (or 'organised to unorganised' as they are called in India) was 7 : 93 for a long time in India. Of late, with the process of shifting in the status from informal to formal, and also on the reverse, estimates of formal to informal workers are placed at 16 : 84. Another dominant segment of workers in India is the 'self-employed workers' who are a major part of the informal workforce. The status of self-employed workers may be considered as better than 'casual labour' but inferior to 'regular workers' or 'employees'. A large number of self-employed workers in India are engaged in own-account farming or small businesses in the non-farm sector. Their condition is prone to change even in the short term, i.e., some of the self-employed workers may be earning so little that they may be forced to move out to take up casual jobs on daily wage basis. The changing structure of the three type of workers i.e. self-employed, regular employees and casual labour over the period 1973-2010 reveals the following: (i) the proportion of regular employees has only marginally increased from 15.4 to 16.6 over the 38 year period (meriting to be regarded as having been in a 'stagnant state'); (ii) the proportion of 'casual labour' has increased from 23 percent to 33 percent over the corresponding period (a phenomenon described as increasing informalisation of the economy); and (iii) the proportion of 'self employed' has come down from 61 percent to 51 percent. The increase (by 10 percent) of the share of 'casual workers' to a corresponding decline of the same proportion by the 'self-employed' workers has been suggested to indicate 'the moving out of own-account workers (another name for self-employed workers) due to low earnings to join the numbers of casual workers'. In other words, this is indicative of a 'deterioration in the quality of employment in aggregate'.

10.4.1 Social Security for Unorganised Workers

Following the recommendation of the National Commission for Enterprises in the Unorganised Sector (NCEUS), a social security Act by the name 'Unorganised Workers Social Security Act' was passed in 2008. The Act stipulates the formulation of suitable welfare schemes for unorganised workers on matters relating to: (i) life and disability cover; (ii) health and maternity benefits; (iii) old age protection; and (iv) any other benefit as may be determined by the central government through the National Social Security Board. Many schemes have since been formulated under these broad heads. These are: (i) Indira Gandhi National Old Age Pension Scheme; (ii) National Family Benefit Scheme; (iii) Janani Suraksha Yojana; (iv) Aam Admi Bima Yojana; (v) Rashtriya Swasthya Bima Yojana; (vi) Janashree Bima Yojna; (vii) Atal Pension Yojana; and (viii) Pradhan Mantri Jeevan Bima Yojana.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What was the basic approach followed in the first two FYPs to address the employment situation in India?

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2) In which year special employment generation and anti-poverty programmes were implemented? What was the motivation for this step?

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3) What special efforts were made in the 1990s to tackle the problem of employment and unemployment? Did it bear out in the realised outcomes?

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4) What were the two important initiatives taken during the post-2000 years to mark a departure in the efforts of the government?

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5) Over a longer term time frame, how would you describe as the performance of employment planning in India?

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6) Over a longer time frame of 1973-2010, what has been the trend in respect of 'informalisation' of Indian economy?

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10.5 LET US SUM UP

The problem of employment in India is associated with a large number of unskilled workers who depend on their getting daily wage jobs of casual nature. Such jobs are informal in nature and are available for only some days in a year. To meet their subsistence requirement, the government has implemented many wage employment programmes. Between 1950-2000, these programmes have succeeded in shifting up the BPL status of 15 percent of assisted households. Implemented as supply side response, these were recognised to have made limited impact and to redress this situation, in 2005, a demand driven Act of NREGA was enacted. The programmes implemented under this Act have contributed to ensuring the availability of jobs by a certain number which is in fact far lower than the 100 days of employment guaranteed by the Act. Despite this, and many other gaps identified in the implementation of the Act, the programmes under the Act are credited to have given a sense of stability besides pushing up the average wage levels in the areas of its country-wide implementation. The government has also implemented several social security schemes to assist the workers in the unorganised or informal sector who are vulnerable to employment and income insecurities. The unit has discussed the problem of unemployment and underemployment typical in rural areas. In urban areas the problem is one of structural unemployment which relates to a mismatch in skills.

10.6 SOME USEFUL BOOKS AND REFERENCES FOR FURTHER READING

1) Papola, T. S. (2008). Employment in India's Development Strategy, in S K Bhaumik (Ed.), Reforming Indian Agriculture: Towards Employment Generation and Poverty Alteration, Sage, New Delhi.

2) Papola, T. S. (2008). Employment Challenge and Strategies in India, ILO, Asia-Pacific Working Paper Series, New Delhi. Pp 2-10.

3) Papola and Sahu (2012). Growth and Structure of Employment in India: Long Term and Post-Reform Performance and the Emerging Challenge, ISID, New Delhi.

10.7 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Since their work is not of a regular nature, their day-to-day disposition needs to be considered.

2) US, UPSS, CWS and CDS. To capture the long term status of employment as well as that of the short term.

3) Labour force is defined as 'employed plus unemployed'. Unemployment rate is then calculated as a percentage of 'unemployed to the labour force'.

4) [13/{415 + 13}]*100 = 3 percent.

5) For the US/UPS approach, the 'majority time criterion' is applied. For the UPSS approach, both the principal activity based on the 'majority time' criterion and the subsidiary activity based on 'priority time' criterion are applied.

6) The denominator for both is total population. For the numerator, for WFPR it is the number of workers and for LFPR it is the labour force.

7) Rural unemployment is disguised or under-employment due to seasonal factors while urban unemployment is structural due to a mismatch in skills.

Check Your Progress 2

1) The basic approach was to set a growth target with the expectation that the benefits of growth would automatically percolate downwards in employment generation.

2) In 1978 by way of IRDP. It was realised that a special effort focused on poor families is required as the trickle down effect anticipated was not really working.

3) Set with the objective of achieving the goal of 'employment for all' by 2002, the effort was to internalise the target in the plan strategy.

However, while the targeted growth rate in employment is 2.6 to 2.8 percent, the actual achievement is 1.1 percent during 1994-2000.

4) Setting up of NCEUS and the enactment of NREGA (10.3.2).

5) Comparative profile of employment and GDP growth rates over 1983-2010 reveals that the two growth profiles are inversely related.

6) The situation has significantly changed from 93 : 7 to 84 : 16. Although this suggests greater formalisation, in reality there is an increase in the proportion of 'casual workers' from 23 to 33 percent.

BLOCK 4
INTERNATIONAL COMPARISONS

BLOCK INTRODUCTION

Block 4: International Comparisons

Block 4 of this course is devoted to presenting an 'International Comparison' of major developmental dimensions. This block has four units.

Unit 11 is on '**Growth and Structural Changes**'. The unit begins with a theoretical insight into the 'trends in the inter-sectoral transfer of workforce'. A comparative profile of structural changes in India with other countries is then presented. This is done with a profile each of India versus the developed, the developing Asian and the emerging BRICS countries separately.

Unit 12 provides a comparative international profile of '**Social and Economic Development**'. The social dimension is discussed in terms of the 'education and health status' while the economic dimension is explained in terms of 'per capita GDP' and 'structural dimension'. A comparative profile of 'deficits of development' is then provided in terms of poverty, inequality and unemployment. An outline of various indices of development like the HDI, the social progress index (SPI) and world happiness index is then given.

Unit 13 is on '**Trade and Balance of Payment**'. The unit begins with a conceptual outline of the terms like: (i) components of BoP account, (ii) deficit and surplus of BoP account and (iii) the 'current account deficit (CAD)'. An international comparison of CAD is then presented with reference to the developed and the developing economies. An outline of the efforts made on the 'liberalisation of capital account in India' and the factors that influence the 'current account balance' are also presented in the unit.

Unit 14 is on '**The Role of Governance and Institutions**'. The unit begins with a distinction of the concepts of government and governance. The elements of 'good governance' are identified. The constituents of governance, delineated for its economic and institutional dimensions, are then explained. An idea of the various 'governance indicators' that have been developed to enable an international comparison is then provided in the unit.

UNIT 11 GROWTH AND STRUCTURAL CHANGES

Structure

11.0 OBJECTIVES

After reading this unit, you will be able to:

- discuss the theoretical insights on inter-sectoral transfer of workforce;
- compare the trend in inter-sectoral transfer of workforce in India with the theoretical insight on the same;
- present a comparative profile of structural changes between India and developed countries;
- explain the inter-sectoral transfers in GDP shares in a comparative profile of India with other developing Asian countries;
- define the terms 'debt to GDP ratio' and 'junk status debt' and indicate their trends for major economies in the recent years; and
- describe the trends in growth rates of India in the recent years (2010-16) in a comparative profile with the world, other developed countries and BRICS economies.

11.1 INTRODUCTION

The process of economic development is historically associated with structural change in national economies. Structural change implies shifts in the shares of GDP and labour force from primary sector to the secondary and tertiary sector. Structural changes not only characterise economic development but are also

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necessary for sustaining economic growth. Kuznets and others have demonstrated that sustained growth is brought about by changes in sectoral composition of workforce. Changes in the structure of an economy would not only be an outcome of the rate of growth but also depends on the nature of development (e.g. human development, inclusive development).

11.2 INTER-SECTORAL TRANSFER OF WORKFORCE: THEORETICAL INSIGHTS AND TRENDS

Pioneering works by Fisher (1935), Clark (1946), Chenery (1960) and Kuznets (1971) suggest that in the early stages of development, the share of agriculture in both output and employment would be overwhelmingly large. But as industrialisation proceeds, the share of agricultural sector in income falls and that of industrial sector rises. Once countries have sufficiently industrialised and reached an advanced stage of economic development, the share of industry also declines while the share of services/tertiary sector rises. After an economy reaches a sufficiently high level of income, the rate of increase in demand for services increases sharply. This is because the services have a higher income elasticity of demand than for the goods of agricultural and industrial sectors.

Rowthorn and Wells (1987) provide a similar description of the pattern of structural change in respect of employment shift in the present day advanced economies. They found that the modern economic growth is associated with a decline in the share of agriculture in total employment resulting in an increase in both the proportion and number of workers engaged in non-agricultural sectors. The non-agricultural sector includes the industrial sector as well as commercial, government and personal and household service (PHS) sectors. In the first stage of development, called the industrial phase, the share of agriculture in total employment continues to decline and a domestic personal service sector builds up. So long as there is surplus labour employed in agriculture and adequate workers in domestic personal services, non domestic services can increase their share of total employment leaving the share of industry unaffected. But eventually, any significant rise in the share of non-domestic services will be at the expense of the industrial sector. The decline in the share of industry and corresponding increase in the share of services in total employment are referred to by Rowthorn and Wells (1987) as the phase of 'de-industrialisation' in the developed countries.

The importance of service sector activity is highlighted in a study of a sample of 123 non-socialist countries for the period 1970-1989 [Kongsemut, Rebelo and Xie (2001)]. The study notes a decline in the share of the agricultural sector, both in output and employment, as an economy matures. The decline is accompanied by an increase in the share of services in output and employment. Hence, as countries develop, there is an increase in the share of service sector economic activity. As a matter of fact, the service sector constituted 70 percent of world GDP in 2016. Using data on a cross section of developed and developing economies over the period from 1950 to 2005, Eichengreen and Gupta (2009) identify two waves of service sector growth: a first wave as a country moves from 'low' to 'middle' income status and a second wave as it moves from 'middle' to 'high' income status.

In case of India, the share of agriculture in GDP declined from 60 percent in 1950-51 to 24 percent in 2002 and further to 17 percent in 2015. The industrial sector increased its share from 16 percent in 1960 to 25 percent in 2002 but thereafter its increase slowed down (reaching only 25.8 percent in 2015). On the other hand, the share of services sector increased from 21 percent in 1960 to 51 percent in 2002 and 57 percent in 2015. The difference between India and the developed and emerging economies is that while most of the latter entered the phase of predominance of services sector, graduating sequentially from predominance in agriculture, first to manufacturing and then to services, Indian industry failed to show such a trend. It stagnated in the expansion of its industrial sector but leap frogged to a significant expansion of the services sector. Whether this trend was unique to India or whether it was followed by any other economy too is thus an aspect to which we shall now turn to see.

11.3 COMPARATIVE PROFILE OF STRUCTURAL CHANGES: INDIA VS DEVELOPED COUNTRIES

The historical pattern of structural changes in the presently developed countries have had a similar stage of sectoral structure about 100 to 150 years back as India had at the beginning of its independence. This is to say that most of the developed countries of today, around the year 1900, embarked upon their industrialisation with about 60 percent of GDP accounted for by agriculture. Industry and services contributed about 13 and 27 percent respectively in these economies. Thus, the Indian economy in 1950 was structurally comparable to the economy of the Great Britain in late eighteenth century, of Japan in 1900, of Germany at the beginning of the nineteenth century and United States and Italy of mid-nineteenth century. Similar comparisons hold in respect of the share of labour force in the three leading sectors in which in 1950 India had the relative shares of 73 percent in agriculture, 11 percent in industry and 16 percent in services. This is comparable with the United States of 1841 when it had about 72 percent of its workers in agriculture, 12 percent in industry and 16 percent in services, or Japan of 1880 with the respective shares of employment in the three sectors being 65, 15 and 20 percent. The main features that, therefore, come out from this historical pattern of changes in the economic structure observed in today's developed countries are:

1) all developed countries followed a similar sequence of changes in their economic structure with predominance of agriculture before attaining their developed status;

2) the structure of the economies of most developed countries is similar in the sense that in their developed state each of them has a miniscule share of agriculture, then a slightly higher share of industry and then a much higher share of services in their national output; and

3) the share of each sector's employment, moves in line with the output share of that sector i.e. highest share in employment in the services sector, a medium share in industries and the lowest share in agriculture.

Economic development in India over a period of half a century (1951-2004) experienced the same pattern of structural changes that the developed economies of today underwent over a period ranging backwards by 100 to 150 years. The share of agriculture in GDP declined from around 60 percent in 1950-51 to 17 percent in 2016-17, share of industry increased from 13 to 29 percent and of services increased from 28 to 54 percent over the corresponding period. This pattern of shift has been continuous throughout the period of over half a century but the pace of shift has been faster since 1990-91. The first forty years saw a decline in the share of agriculture from 60 percent to 35 percent whereas the next 25 years reduced it from 35 to 17 percent. Share of services, on the other hand, increased from 28 to 40 percent in the first 40 years and from 40 to 54 percent in the next 25 years. Share of industry in GDP which had stagnated up to 2003-04 has since picked up to reach the level of 29 percent in 2016-17.

But the most striking feature of the structural change in the Indian economy in recent (two and a half decades) has been the pre-eminence of services sector as the major contributor to growth, raising its share rather sharply in the national output. Industry, particularly manufacturing, which has been observed historically to be the main contributor to growth, at least in the initial period of economic development, has played only a minor role in India's economic growth. While developed countries entered the phase of predominance of services in their economies after going through a major phase of industrialisation where the industry attained a share of 50 percent in the economy, the Indian case is different. India has marched towards a post-industrial 'service economy' without industrialising. Such a swift and a historical transition of an economy, directly from an agricultural to a service economy bypassing industrial development can be explained on two fronts. First, technological advancements over the past few decades have led to increasing demand for services in countries even at a relatively low level of per capita income. Development of communication technologies and movements of people across countries have produced demonstration effect creating similar pattern of demand in developing as well as developed countries leading to larger demand for services. As a result, elasticity of demand for services has become greater than unity even in countries with relatively low per capita income levels. This has led to a rise in the contribution of services in national product. Second, with increasing openness of economies and trade playing significant role in them, changes in demand pattern are met through trade. Trade, thus, has served as a driving force in bringing about this bypassing of industries by services.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What is the underlying reason for the theoretical insight on the sectoral transition of income first from the primary to the industry and then in the later stages from the industry to the services sector?

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2) What does the term 'de-industrialisation' used by Rowthorn and Wells mean?

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3) What has been the experience of India in respect of its sectoral share in GDP over the period 1960 to 2015?

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4) What are the common features that could be stated from the historical trends of inter-sectoral shares of GDP and employment for today's developed countries and India?

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5) How would you compare the pace of structural change in India, in terms of inter-sectoral share in GDP, over the years 1951 to 2017?

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11.4 COMPARATIVE PROFILE OF STRUCTURAL CHANGES: INDIA VS OTHER DEVELOPING ASIAN COUNTRIES

To place the performance of the Indian economy in a comparative framework, we can consider economies of South East Asia and East Asia viz. China, Indonesia, Malaysia, Pakistan, Thailand and Republic of Korea. Share of the agricultural sector in their GDP has decreased for all the countries and that for services sector has increased over the period 1960-2015. Important trends in this respect can be stated as follows.

Share of Agricultural Sector in GDP (agriculture-GDP)

- The share of agricultural sector in GDP was higher than 50 percent in 1960 for only two of these seven countries viz. Indonesia (50 percent) and India (55 percent). By 2015, their respective shares in 'agriculture-GDP' had decreased to 14 percent and 17 percent respectively.
- In 1960, China had the lowest share by agriculture to its GDP than all the other countries (30 percent). By 2015, China is one of the three countries whose contribution to GDP had declined to less than 10 percent (8.6 percent); the other two countries being Malaysia (9.1 percent) and Korea (2.7 percent).
- Even by 2002 itself i.e. by the beginning of the millennium, three countries had achieved decline in their share of agriculture-GDP below the 10 percent

mark. These three countries are: Thailand (9 percent), Malaysia (9 percent) and Korea (4 percent). However, Thailand's share of agriculture-GDP increased to 12.4 percent by 2015.

- Malaysia is notable to have maintained its level although there was a marginal increase in its share of agriculture-GDP to 9.1 percent in 2015. China joined this distinctive category by achieving decline in its agriculture-GDP from 15 percent in 2002 to 8.6 percent in 2015. Korea is the only country whose share of agriculture-GDP had declined below the 5 percent mark by 2015 (2.7 percent).

Table 11.1 : Changes in Sectoral Shares (%) in GDP in Some Asian Countries (1960-2015)

Countries	Agriculture			Industry			Services		
	1960	**2002**	**2015**	**1960**	**2002**	**2015**	**1960**	**2002**	**2015**
China	30	15	8.6	49	51	39.8	21	34	51.6
Indonesia	50	18	14.3	25	45	46.9	25	38	38.8
Thailand	40	9	12.4	19	43	44.7	41	48	42.9
Malaysia	36	9	9.1	18	47	41.6	46	44	49.3
Korea	37	4	2.7	20	41	39.8	43	55	57.5
Pakistan	46	23	21.8	16	23	23.6	38	54	54.6
India	55	24	17.4	16	25	25.8	29	51	56.9

Source: Compiled from Papola (2012) and WDR database

- The two points made above are specified with the view that the share of agriculture-GDP to fall below 10 percent is a landmark achievement and to achieve a further decline below 5 percent is a even major landmark to achieve.
- In developed countries the share of agriculture-GDP is very low (e.g. US – 1.1 percent in 2015 and UK – 0.6 percent for same year).

Share of Industrial Sector in GDP (industry-GDP)

- Moving on to the share of industry-GDP, China is the sole country whose industry-GDP share was close to 50 percent in 1960 (49 percent). All other countries had less than 20 percent share of industry-GDP in 1960 with the exception of Indonesia (25 percent).
- However, China's share of industry-GDP slid down below 40 percent mark by 2015 (39.8 percent). This is a steep reduction although a reduction in industry-GDP over 2002-15 is observed for Malaysia and Korea too.
- Korea had increased its industry-GDP from 20 percent in 1960 to 41 percent in 2002 but since then there has been a slight decline to 39.8 percent in 2015.
- Share of industry-GDP was similar for three countries viz. Indonesia, Thailand and Malaysia. This is in the sense all three had their industry-GDP share closer to the 20 percent range in 1960 (Indonesia, 25 percent; Thailand, 19 percent; Malaysia, 18 percent). By 2002, all these three

countries along with Korea had crossed the mark of 40 percent in their industry-GDP share (Korea, 41 percent; Thailand, 43 percent; Indonesia, 45 percent and Malaysia 47 percent). More notably, over the next 10+ years i.e. by 2015, Indonesia and Thailand had marginally increased their industry-GDP share (to 47 percent and 45 percent respectively), whereas, for Malaysia and Korea there was a decline in this respect (to 41.6 percent and 39.8 percent respectively).

- Both India and Pakistan are outliers in respect of their industry-GDP share i.e. both had the same share of 16 percent in 1960 and both had not only marginally improved their industry-GDP share by 2002 (to 25 and 23 percent respectively) but both demonstrated a stagnancy with a very marginal increase in their industry-GDP share over 2002 to 2015 (to 25.8 and 23.6 percent respectively).
- Over 2002 to 2015, the stagnancy observed in industry-GDP share in India and Pakistan had also set-in in Korea, Indonesia and Thailand with varying degrees marginally differing from each other (Table 11.1). However, the structural shift or change is marked for an expansion of industry with a corresponding decline in agriculture-GDP (i.e. as the historical trend revealed for the developed economies and also as the theoretical insights had outlined) more markedly for all countries except India and Pakistan. The expansion of industry is not to the extent as in other five economies for these two countries.

Share of Services Sector in GDP (service-GDP)

- The highest shift over the period 1960-2015 in the service-GDP is for China (30.6 percent) followed by India (27.9 percent) i.e. 31 percent and 28 percent rounded to the nearest digit.
- Malaysia is an outlier in the sense that it had reached its peak level in 1960 itself in its service-GDP (46 percent) and over the next 55 year period its service-GDP share has increased by the smallest measure among all these seven economics (i.e. 3.3 percent).
- Thailand and Korea are the other two economies whose service-GDP share was higher than 40 percent in 1960. Korea has seen an increase of 14.5 percent since then up to 2015 whereas Thailand had increased its service-GDP share by 7 percent up to 2002 but has since experienced a steep decline to 43 percent in 2015. This means over the long term horizon of 1960-2015, Thailand’s increase in service-GDP is the lowest i.e. a mere 2 percent.
- Pakistan’s service-GDP had increased by 16 percent over the period 1960-2002 to reach the level of 54 percent but has since shown stagnation – its share in service-GDP having risen only by 0.6 percent.
- India experienced the highest increase in service-GDP over the period 1960-2002 i.e. by 22 percent. Its increase in this respect over the period 2002-15 has been modest at 5.9 percent (i.e. 6 percent rounded).

Employment Shift over 1991-2017

- Shift of labour force from agriculture has been slower than that in GDP in all countries. Over the period 1991-2017, China has managed to reduce their agricultural sector employment by half) from 55 to 27 percent [Table 11.2].

During this period, India has managed to reduce it by one-third (from 63 to 44 percent). Japan stands out as the country employing least workforce in agriculture (single digit for both time points).

- Share of industry in labour force shows that four countries viz. Malaysia, Sri Lanka, Philippines and Pakistan have experienced a period of stagnation for employment absorption in their industries. In contrast, India has increased its share of industrial employment from 15 to 25 percent. With this percentage increase, India is the second among these 10 countries (first is Vietnam where there is a 14 percent increase) to have created industrial employment of this magnitude as all other countries have done less than this [e.g. China, 6%; Indonesia, 8%].
- What distinguishes India from other countries of this group is the difference in the absorption of employment by the services sector. In all other countries, the share of services sector has increased more or less in tune with that of GDP. However, in India the employment share has shown much smaller increase that the shift in the GDP share to the services sector. This means, whereas the services sector is the major economic sector in terms of its contribution to GDP, it is a minor contributor to employment.
- In services sector, all the 10 countries without exception have had their employment share increased. However, countries which have managed to achieve an increase of more than 15 percent over this period (1991-2017) are: China (23 percent), Thailand (18 percent), Vietnam (17 percent) and Malaysia (15 percent). Indonesia and Japan have increased their services sector employment by 13 and 12 percent respectively. India, with a 9 percent increase in this respect, is among the three countries which have managed to create additional employment avenues in the services sector of the lowest order [the other two countries in this bracket being Philippines (8 percent) and Pakistan (5 percent).

Table 11.2: Share of Employment by Major Sectors (Percentage to Total Employment)

Major Asian Economies	Agriculture		Industry		Services	
	1991	2017	1991	2017	1991	2017
China	55	27	19	24	26	49
India	63	44	15	25	22	31
Indonesia	53	31	14	22	33	46
Japan	7	4	35	27	58	70
Malaysia	26	12	27	27	46	61
Pakistan	48	42	20	20	33	38
Philippines	43	28	15	16	42	50
Sri Lanka	42	27	26	26	32	47
Thailand	60	34	15	23	25	43
Vietnam	73	42	9	23	18	35

Source: ILO [http://www.ilo.org/global/statistics-and-databases]

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) Which are the only two countries which had its agriculture-GDP share more than 50 percent in 1960? What are their current levels in this regard (in 2015)?

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2) Which country had the lowest share of all others in 1960 in agriculture-GDP? What is its share in 2015? Which are the other two countries which have also achieved this level in 2015?

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3) In what respects, Korea stands out as unique among all these 7 countries in comparison?

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4) In respect of industry-GDP, what is notable about China?

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5) Why are India and Pakistan outliers in respect of their industry-GDP?

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6) Which are the two countries that have experienced the highest shift in services-GDP over the period 1960-2015?

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7) How does Thailand stand out in respect of its Services-GDP?

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8) What is remarkable about the Indian services sector in comparison to other economies?

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11.5 COMPARATIVE PROFILE OF STRUCTURAL CHANGES: INDIA VS DEVELOPED AND BRICS ECONOMIES

Structural change in economies would indirectly derive from the growth rates experienced at the overall economy level. Both the growth rates achieved and the resulting structural changes are a reflection of overall policy and institutional insights. From this point of view, although not directly, taking a look at the comparative profile of overall economic growth rates is useful. A comparative profile of this scenario for a mix of countries comprising of developed and the developing or emerging economies is presented in Table 11.3. Major features that flow from the figures therein are the following.

Table 11.3: Comparative Growth Profiles for Developed and BRICS Economics (%): 2010 to 2016

Year	World	USA	Euro-zone	Germany	Japan	Brazil	Russia	India	China	South Africa
2010	5.2	3.0	1.8	3.6	4.4	7.5	4.5	9.9	10.4	5.4
2011	3.8	1.8	1.5	3.0	-0.9	3.9	4.3	7.4	9.2	4.4
2012	2.4	2.2	-0.9	0.5	1.5	1.9	3.5	5.6	7.8	3.8
2013	2.6	1.7	-0.3	0.5	2.0	3.0	1.3	6.4	7.8	4.8
2014	2.8	2.3	1.2	1.6	0.4	0.5	0.7	7.5	7.3	4.6
2015	2.7	2.6	1.5	1.7	1.2	-3.8	-2.8	8.0	6.9	3.3
2016	2.4	1.6	1.8	1.9	0.9	-3.6	-0.2	7.1	6.7	1.2

Source: World Bank database

- The global economic growth rate has halved over the short term period of 2010 to 2016 from 5.2 percent in 2010 to 2.4 percent in 2016 (Table 11.3). In particular, the US economy's growth rate has also slid down from 3 percent in 2010 to 1.6 percent in 2016. A similar declining growth trend is noticed for Germany (from –3.6 percent in 2010 to 1.9 percent in 2016), Japan (from 4.4 percent in 2010 to 0.9 percent in 2016) and South Africa (from 5.4 percent in 2010 to –1.2 percent in 2016)

- Economies of Euro-zone, Japan, Brazil and Russia have experienced negative growth rates for some year or the other during the period 2010-16. In particular, Brazil's economy has slumped from a high of 7.5 percent growth in 2010 to a low of –3.6 percent in 2016 and of Russia from 4.5 percent growth in 2010 to –0.2 percent in 2016.

- India and China are two countries which stand apart in this regard. Both the countries have experienced declining growth performance in their economies, in tune with the global trend, but from a high growth rate in 2010 to a lower growth rate in 2016. While China's growth rate has declined from 10.4 percent in 2010 to 6.7 percent in 2016, India's growth rate has declined from 9.9 percent in 2010 to 7.1 percent in 2016.

A number of downside risks continue to linger on the horizon. These include: (i) continued sluggishness of the global economy, (ii) possible capital outflows consequent upon the recent increase in the interest rate in USA, (iii) a possible reversal of the global oil price trends, (iv) inadequate monsoon rainfall and financial market vulnerabilities. Besides recession in some economies as noted above, a growing trend of concern in many economies has been the increasing debt-to-GDP (DTG) ratio. For instance, China experienced a high DTG ratio of 250 percent. Likewise, as per two rating agencies, Brazil's DTG has been demoted to a junk status.

11.6 LET US SUM UP

Structural change during the development status is theoretically expected to result from agricultural to industry and then from industry to services sectors. Such a change is a reflection of rising incomes and better living conditions. Many developed economies have experienced this type of transition in the course of their development. However, some emerging economies like India have reached a higher share of services sector in GDP with their industrial GDP share having remained low at around 25 to 30 percent. This is in contrast to some other economies like China, Indonesia, Thailand, Malaysia and Korea all of which have a stronger industrial base of around 40 to 50 percent. One of the reasons for such a skip over of the industrial sector's expansion i.e. directly to services sector dominated share in the GDP, is the impact of 'international trade'. This is also aided by the developments in the communication technologies and people's movement across countries. There is a declining trend in the overall economic growth rates experienced by many developed countries with many advanced economies like US, Germany and South Africa registering half of their growth rates in more recent years like 2016 as compared to what they achieved in 2010. India and China are two countries standing out as exceptions to this declining trend. An yet another striking feature of services sector's dominance in countries like India is its relative low employment absorption potential.

11.7 SOME USEFUL BOOKS

1) Kuznets, S (1966). *Modern Economic Growth: Rates, Structure and Spread*, Oxford and IBH Publishing Co.

2) Kuznets, S. (1971). *Economic Growth of Nations: Total Output and Production Structure*, Cambridge: Harvard University Press.

3) Papola, T. S. (2008). Emerging Pattern of Indian Economy, *The Indian Economic Journal*. Vol.54, No.1, April –June.

4) Papola, T. S. (2005). 'Structural Changes in the Indian Economy: Some Implications of the Emerging Pattern', *Artha Beekshan*, Vol. 13, No. 4,

5) Rakshit, Mihir (2007). Services Led Growth: The Indian Experience, Artha Beekshan , Vol.15, No. 4.

11.8 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) This is because of the reason that the services have a higher income elasticity of demand as compared to the goods of primary and industrial sectors.

2) The phrase is referred to in the sense that increase in the share of employment, after a certain phase of industrial development, will be solely at the cost of industrial sector's employment share i.e. decline in the share of industry is matched by the corresponding increase in the share of service sector's employment.

3) Share of agriculture in GDP decreased substantially from a high of 60 percent in 1951 to 17 percent in 2015. However, while the share of industry's income in GDP rose from 16 percent to 25 percent over 1960 to 2002 but thereafter nearly stagnated (by reaching up to only 25.8 percent by 2015). For the services sector the increase was significant: from 21 percent in 1960 to 57 percent in 2015.

4) These are: (i) in GDP the developed countries had a predominant contribution from agriculture (between 65 to 72 percent) followed by industry (12 to 15 percent) and services (16 to 20 percent. For other common features, see Section 11.3 and answer.

5) The pace of change has quickened since 1991. Agricultural share decreased from 60 percent to 35 percent up to 1991 (i.e. a decline of 25 percent) but by 2017, it had further fallen to 17 percent (i.e. by another 18 percent since 1991). Share of industry which had increased by a mere 0.8 percent, from 25 to 25.8 percent over the period 2002 to 2015, has suddenly improved its share to touch 29 percent in 2017. Share of services sector has increased from 28 to 54 percent over the period 1951-2017.

Check Your Progress 2

1) Indonesia and India. 14 percent and 17 percent respectively.

2) China (30 percent); 9 percent in 2015. Korea and Malaysia are the other two

countries (3 and 9 percents respectively). In fact, Malaysia and Korea had achieved this level of less than 10 percent share in 2002 itself. But Malaysia's share in 2015 in its agriculture-GDP has increased to 12 percent.

3) Korea is a unique case which has most exactly followed the theoretical insights indicated by literature. Not only its agriculture-GDP is the lowest and below 5 percent level, a distinction it had achieved in 2002, its industry-GDP had doubled from 20 percent in 1960 to 41 percent in 2002 – a level it has nearly consistently maintained up to 2015. Further, its rising services-GDP is consistent (i.e. without any sign of decline or stagnancy as seen in case of other countries).

4) First, it is the only country which had the highest and close to 50 percent share even in 1960 (49 percent). Second, whereas in all countries there is an increase in industry-GDP, China is the only country where there has been a steep decline (from 51 to 40 percent over 2002-15).

5) They are the two countries with the lowest of industry-GDP. Secondly, they have nearly stagnated in this respect over the period 2002-15.

6) China and India (31 percent and 28 percent).

7) It had one of the highest services-GDP in 1960 itself (i.e. more than 40 percent). And over the long term time frame of 1960-2015, its services-GDP has increased by a mere 2 percent.

8) The shift of services-GDP is higher. Corresponding shift in employment is smaller.

UNIT 12 SOCIAL AND ECONOMIC DEVELOPMENT OF INDIA [*]

Structure

12.0 OBJECTIVES

After reading this unit, you will be able to:

- state the limitations of using ‘per capita income’ as a basis for inter-country comparative profile;
- specify a framework for drawing a comparative profile of countries for their social and economic development;
- outline the ‘economic dimension’ of India’s growth profile with other countries over a long term time frame of 1961-2018;
- highlight the principal differences in the economic growth profiles of India with those of Sri Lanka and China over the period 1961-2018;
- present an account of the ‘deficits of development’ in India in a comparative profile with other economies;
- contrast the social sector development in India with other economies; and
- write a note on ‘comprehensive indices of development’.

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[*] Prof. D.N. Reddy, Osmania University

12.1 INTRODUCTION

Ever since the end of the Second World War, and the gradual end of colonialism in most of the newly independent countries including India, 'development' is considered as most important for achieving better living conditions for people. Development was initially conceptualised as achievement of higher levels of GDP and GDP per capita. For this, the targets for achieving development were set in terms of growth rates in national income. The levels of development of countries were measured in terms of the levels of per capita incomes. Measuring development in per capita income terms helped in: (i) differentiating countries as developed and developing, and (ii) identifying the financial assistance needed for developing countries by multilateral institutions like International Monetary Fund and the World Bank.

While the measurement of countries' development in per capita terms continues, questions have been raised about the adequacy of considering the level of per capita income to reflect the living condition of people. It is rightly argued that per capita income is only an average and does not reflect the distribution of income. This criticism is well reflected in cases of those countries which enjoy high per capita income but lack basic achievements of development in terms of capabilities and freedom. Hence, per capita income is only a means for better living but not adequate for development. For development, it necessarily should be seen in conjunction with population size and gender equality level. This argument has given a fillip to the concept of development from a multidimensional perspective. In other words, a measure of development should consider many dimensions of socio-economic significance. Such measures, compositely defined and constructed, should then be taken as a basis for making inter-country comparisons. In the immediate foregoing section of the present unit, a broad framework for making a comparison of countries for assessing their levels of social and economic development is outlined. Based on this framework, the subsequent sections present a comparative profile of India's development with those of other select economies. The basis on which this sample of select economies is chosen is also outlined in the section below.

12.2 FRAMEWORK FOR INTERNATIONAL COMPARISON

The factors which need to be considered are: (i) basic 'economic dimensions' like size of population, GDP, per capita income, growth in GDP, share of agriculture in total employment and GDP; (ii) deficits of economic development in terms of levels of poverty, hunger, inequality and unemployment; (iii) progress in social dimensions of development like education, health and gender development status; and based on all these three (iv) a comprehensive index or indices of social progress like human development. We proceed in the subsequent sections in this very order making in each a comparative assessment of India's status with those of other select economies. For making a selection of countries for comparison, we keep one country from each of the five continents restricted to Asia, Africa, North

America, South America and Europe. Specifically, we include the following countries cutting across the developing and the developed divide: India, Bangladesh, Nepal, Pakistan and Sri Lanka (from South Asia), China from East Asia, Brazil from Latin America, South Africa (from Africa), USA (from North America) and United Kingdom (from Europe). We limit our comparative profile to these ten countries here. Together, the ten countries account for more than half (51 percent) of world's population. In particular, China and India taken together account for more than one-third (36.6 percent) of world population. Hence, whatever development could be achieved in these two countries will have significant impact for global human progress.

The World Bank for its differential lending purposes groups countries into four categories viz. (i) low-income countries with per capita income of less than $ 1025 (2018), (ii) lower middle-income countries with per capita income of $1026-$3995, (iii) upper middle-income countries with $3996-$12375 and (iv) high-income countries with per capita income of $12376 or more. According to this classification, out of the ten countries kept in our sample, the four South Asian countries, except Sri Lanka (which qualifies as a upper middle income country), are in the low middle-income group. Along with Sri Lanka, China, South Africa, and Brazil are also in the upper middle-income group. USA and UK have always been in the high-income group. You must note that, over time, positions of countries change within the four groups and hence it is necessary to keep oneself updated by referring to the World Bank's publication on Development Indicators. For instance, Sri Lanka has been a recent entrant into the upper middle income group while Nepal has recently moved up from low-income to lower middle income group.

12.3 ECONOMIC DIMENSION

The Asian countries, except China, during this long period of 1961-2011, were languishing in a relatively low growth rate scenario (defined as below 4 percent average annual growth in GDP) [Table 12.1]. Their growth rates varied from a low of 1.4 percent for Nepal to a high of 3.3 percent for Sri Lanka. China was an exception which recorded the highest growth rate of 6.8 percent averaged over the long term period of 50 years. But in recent years, in 2018, all these countries, except Sri Lanka, have moved up to high growth trajectory (defined as 'above 5 percent'). Typically, the developed countries are notable for their low growth rate in the range of 0-2 percent. This is because developed countries have better established (i.e. formal) structural base. This contributes to many factors of production and distribution being at a state of near equilibrium from where further ICOR (incremental capital output ratio) would be comparatively less than that in developing countries. Further, developed countries have large GDPs relative to their population and labour force. All these factors are the opposite in case of developing countries where technological infusion has a tendency to yield higher ICOR return.

Table 12.1: Economic Dimension of Development

Country	**Population 2018 (millions)**	**Per Capita GDP 2018 (Current US $)**	**Average Annual Growth Rate of GDP: 1961-2011**	**Growth Rate 2018**	**Share of Agriculture in GDP (%) 2018**	**Share of Agriculture in Total Employment 2018 (%)**
(1)	(2)	(3)	(4)	(5)	(6)	(7)
India	1352	2010	3.1	6.8	14.6	43
Bangladesh	161	1698	1.37	7.9	13.1	40
Nepal	28	1033	1.4	6.7	25.3	70
Pakistan	212	1482	2.6	5.8	22.9	41
Sri Lanka	21	4102	3.3	3.2	7.9	26
China	1392	9770	6.8	6.6	7.2	27
South Africa	57	6374	NA	0.8	2.2	5
Brazil	209	8920	NA	1.1	4.4	9
USA	327	62795	NA	2.9	0.9	1
UK	66	42944	NA	1.4	0.6	1

Source:1. Except for Col. 4 (growth rate for 1961-2011), World Bank Development Indicators.
2. For Col. 4: Dreze and Sen (2013).

12.3.1 Per Capita GDP

In terms of per capita GDP, among the four South Asian countries, India's position is second ($2010 in 2018). Sri Lanka's per capita GDP is nearly twice that of India ($4102). But China's per capita GDP is one of the highest: it is more than twice that of Sri Lanka's ($9770). The per capita GDP of the two high income countries in our sample is many times more than even China (4 times higher for UK and 6 times higher for USA). The PCI of South Africa and Brazil are lower than that of China but higher than that of Sri Lanka ($6374 and $8920 respectively).

12.3.2 Structural Dimension

Progressing towards higher levels of income would involve structural transformation from the predominantly agrarian stage (defined as more than 40 percent of workforce engaged in agriculture) to that in manufacturing and services. From this yardstick, four countries viz. India, Bangladesh, Nepal and Pakistan have workforce in agriculture in the range of 40-70 percent (Bangladesh 40 percent and Nepal 70 percent). Relatively higher dependence on agriculture for income and employment reflect lower level of development. This is because the per capita productivity (defined as the ratio of income to workforce) pulls down the overall economy's PCI due to the dependency of higher proportion of workforce (with a lower share in its income/GDP) on agriculture. The above four countries are having their GDP share from agriculture high (in the range of 10-25 percent: from 13 percent in Bangladesh to 25 percent in Nepal). With structural transformation from agriculture to industries, developed countries tend to have not only the lowest share of their workforce in agriculture but the sector's contribution to GDP also become lowest. Both USA and UK are notable in this respect with just 1 percent of their workforce depending on agriculture with their GDP share too at less than 1 percent.

Finally, it is noteworthy to highlight the following three principal differences in the economic growth profiles of India with Sri Lanka and China (the two neighbours who have progressed impressively, one with as large a population as India and the other with much smaller population base: only 21 million in 2018) over the long term period of 1961-2018.

- India and Sri Lanka have both experienced nearly equal GDP growth of just above 3 percent average annual but owing to a huge difference in the population dimension, the per capita GDP of Sri Lanka is twice that of India.
- Although China's growth rate was twice that of India over the nearly 60 year time frame, in 2018, the two country's growth rate was nearly equal (6.8 percent for India and 6.6 percent for China). This is revealing of the fact that even though China took a giant leap in economic growth, India too has caught up with China in more recent years.
- The employment share of agriculture in China and Sri Lanka are both comparatively lower and nearly equal (27 and 26 percent in 2018 respectively). Indian comparative share of agriculture employment is still much higher (43 percent in 2018).

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) Why is PCI considered limiting particularly for international comparative purposes? Nevertheless, how is still used for international comparison purpose?

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2) Specify an analytical framework for drawing a comparative profile of India with other economies?

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3) What variables are considered for an analysis of 'economic dimension' of development? How does India figure in this respect in a comparative profile with other countries?

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4) In what respects comparison between India, Sri Lanka and China stand out?

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5) Why is Bangladesh and Nepal notable for their development achieved?

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6) What is meant by 'structural dimension of development'? Why is Sri Lanka notable in this respect?

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12.4 DEFICITS OF DEVELOPMENT

In the post-Second World War era, many developing countries launched focussed strategy of planned economic growth. It yielded results of relatively higher growth rates in some countries but not in India till the late 1990s. By 1970s, it was realised that high rates of growth in many of these countries did not improve the condition of living of large majority of people. In other words, in spite of relatively higher growth rates, not only high levels of poverty and unemployment persisted but income inequalities too increased. There was an increasing criticism on an obsession for growth with a focus only on increasing the GDP without addressing the issue of its reach to the lower segments of the population. This called for attention to 'deficits of development' in terms of poverty, unemployment and inequality. Because of this demand, there was a focussed attention on a direct effort on poverty alleviation programmes and employment generation strategies.

12.4.1 Poverty

For measuring poverty, every country has evolved a poverty-line based on norms of per capita calorie consumption and consumption of certain essential items like fuel, clothing and transport. Further, in order to have a common base for inter-country comparison, the concept of 'per capita consumption of Purchasing Power Parity (PPP)' is evolved. The norm for PPP is changed to account for rise in prices with its present level fixed at $1.90 per day. Although there has been a decline in the poverty levels over time, still, almost one-fourth of the population in South Asian countries (except Sri Lanka) have their poverty ratios above the 20 percent level (Table 12.2). Since large populations amount to larger number of persons below the poverty level, in absolute terms, as many as 280 million people (in 2011) were below poverty level in India. It is important to note that poverty has a inverse relationship to per capita income (PCI) i.e. higher the PCI lower is the poverty level. For instance, China with a PCI of 9770$, has the lowest poverty ratio of 3.1 percent, Sri Lanka with a PCI of 4102$, has the next lowest poverty ratio of 4.1 percent, etc. Typically, India, Bangladesh and Pakistan have more than one-fifth (20 percent) of their population with their PCI also being low in the range of 1000-2000 dollars. South Africa is an extreme case where even though its PCI is higher at 6374$, its poverty ratio is also very high at 56 percent (in 2014).

Table 12.2: Deficits of Economic Development

Country	**Poverty Ratio (% Below PPP 1.9 $ per day)**	**Unemployment Rate (% of Labour force – 2018)**	**Inequality (Gini Index) 2018**
(1)	(2)	(3)	(4)
India	21.9 (2011)	6.5*	40.8
Bangladesh	24.8 (2016)	4.3	46.4
Nepal	25.2 (2010)	1.2	32.8**
Pakistan	24.3 (2015)	3.0	32.1
Sri Lanka	4.1 (2016)	4.3	48.9
China	3.1 (2017)	4.4	48.8
South Africa	55.5 (2014)	27.3	69.6
Brazil	NA	12.2	52.5
USA	NA	3.9	39.0
UK	NA	3.8	32.0

*India's unemployment – PLFS 2017-18,

**World Bank Database

Source: 1. For Poverty Rate and Unemployment: World Bank Database.
2. For inequality, World Inequality Database, World Institute for Economic Development and Research (WIDER).

12.4.2 Unemployment

Interpreting unemployment across countries needs caution. This is because of considerable informal sector's presence in developing countries since poor cannot afford to be unemployed. They would accept any work regardless of level of wages and duration of employment. Thus, they end up reporting employed even though they are often underemployed at very low wages. Therefore, in relatively less developed countries like India where close to 90 percent of employment is informal, unemployment is often reported very low (6.5 percent in 2018: Table 12.2). The higher rates of unemployment in South Africa (27 percent) and Brazil (12 percent) are due to higher proportion of formal employment in which scope for under-employment is less i.e. either one gets formal employment or one is unemployed. In contrast, in all developing economies, there is both high proportion of disguised unemployment in informal sector and high proportion of open unemployment due to lack of jobs in formal sector.

12.4.3 Inequality

Although many developing countries, including India, started their development strategy with an emphasis on growth with distributive justice, over the years there has been increase in inequality. It is ironical but true that when these economies were on low growth path, inequality was very low. But as they moved to higher growth trajectory, inequality also started increasing. Such high degree of inequality is observed to be disconcerting, so much so that it is now seen as a major development challenge. Conventionally, inequality in income distribution has been expressed as a Gini Ratio (i.e. a percent obtained by multiplying the Gini coefficient by 100). But since data on income itself is hard to obtain in developing economies (again due to the large scale presence of informal employment), estimation of income is indirectly made on the basis of household consumption surveys. Inequality estimates based on consumption data underestimates inequality. However, more recently, due to the initiative of the World Inequality Database (WID), data on income is generated for all countries based on novel methods employed to make the data comparable between countries. The data on inequality by WID (Table 12.2) shows that among the South Asian developing countries, inequality ranges from 32 percent in Pakistan to 49 percent in both China and Sri Lanka. Further, with rise in incomes, there is a steep increase in inequality in developing countries. This is also true of South Africa which has the highest Gini Index of 70 percent (one of the highest in the world next only to some middle-east countries). Another example is Sri Lanka which, though figures much better in most of the development indicators, has the highest inequality Index of 49 percent (same as China) in South Asia. For developed countries, it ranges from 32 percent in UK to 39 percent in USA, a level comparable to South Asian economies of Nepal, Pakistan and India.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What is meant by 'deficits of development'?

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2) Is it true that with increase in PCI, poverty too comes down? Can there be an exception to this inverse relationship? Give examples.

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3) Why is measurement of unemployment an issue in developing countries?

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4) What efforts have been made to generate data on income which is comparable across countries? What does such data reveal for inequality across countries?

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5) What is the extent of inequality in developed countries? How does this compare with those in the developing countries?

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12.5 SOCIAL DIMENSIONS OF DEVELOPMENT

Ever since questions were raised about the limitations of the per capita income as a measure of development, there has been an effort to expand the domain of development. The deficits in development, like persistence of poverty and unemployment, are seen as consequence of single-minded attention to growth of GDP and GDP per capita, to the neglect of social dimensions like education and health. In the last two decades, there has been a growing attention paid to education and health dimensions of development. This is mainly owing to the realisation that improvements in educational and health status are of prime importance in increasing the capabilities of people. Improved capabilities, in turn, help in increasing the productive performance of people and better utilise the various goods and services. In this section, we shall examine the status of the countries in terms of indicators of education and health.

12.5.1 Educational Status

Conventionally, 'adult literacy rate' used to be taken as an indicator of educational status. This was expected to reveal historical neglect or achievement in the educational status of people. But currently, educational achievements are discussed in terms of 'access, equity and quality' of education. In keeping with this trend, the focus here is kept on 'access to different levels of education'. On quality, the indicator of 'learning poverty' as defined by World Bank (WB) is considered. 'Learning poverty' is defined by WB as 'being unable to read and understand a short, age appropriate text by age 10'. This index has focus on early childhood and school education.

Adult literacy ratio gives a broad indicator of educational status of a country. Its relative lower levels indicate the inadequate attention to education. Adult literacy rate in India (74%) is better than Pakistan (59%) and Nepal (68%) but other countries [Sri Lanka (92%), South Africa (87%) and Brazil (93%), China (97%)] are far ahead in this respect [Table 12.3]. In terms of 'access to school education', access to primary education being almost 100 percent in most of the countries, the 'gross enrolment rate (GER) in secondary education' is considered here. In this respect, among the countries of South Asia, except Sri Lanka, the other four countries still have a little over one-fourth of the relevant age group 'out of school'. Pakistan, with a GER in secondary education of 43 percent is behind the other countries in this region.

Table 12.3: Status of Education Development in a Comparative Perspective (2018/2019)

Country	Adult Literacy Rate (%)	Gross Enrolment in Secondary Education	Gross Enrolment in Tertiary Education	Mean Years of School (for 25 + pop)	% of Pop. Completed Lower Secondary Education	Public Expenditure on Education (% to GDP)	Quality of School Education (Learning Poverty)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
India	74	73	28	6.5	37.6	3.8	54.8
Bangladesh	74	73	21	6.4	43.6	2.0	57.2
Nepal	68	74	12	3.5	26.9	5.2	NA
Pakistan	59	43	9	5.0	36.4	2.9	74.5
Sri Lanka	92	98	20	10.9	81.6	2.8	14.4
China	97	88	51	10.6	65.3	1.9	18.2
South Africa	87	105	22	10.2	72.3	6.2	79.8
Brazil	93	101	51	8.0	60.0	6.2	48.4
USA	-	99	88	13.8	96.0	5.0	7.9
UK	-	126	60	13.2	99.7	5.5	3.4

Source: World Bank Database on World Development Indicators.

International Comparisons

There is a growing concern that with increasing bias of future jobs towards higher skill capabilities, the minimum requirement of education for entry into employment would be secondary school completion. In this respect, Sri Lanka with 98 percent enrolment in secondary education stands out as the best achiever in South Asia. However, there are two dimensions to school education. On is enrolment and the other is 'completion of the school education at different levels'. From this angle, the 'mean years of schooling' for the population in the age group of 25 years or more is lowest in Nepal (3.5 years). This is followed by Pakistan (5 years), Bangladesh (6.4 years), India (6.5 years), Brazil (8 years), China (10.6 years) and Sri Lanka (10.9 years). In developed countries, it is still higher (UK, 13.2 years; USA, 13.8 years). When we take the gross enrolment rate (GER) in tertiary education, India (28%) scores better than other South Asian countries including Sri Lanka (20). But it is much behind China and Brazil (51% for both). This is much higher for UK (60%) and USA (88%). There is a widely shared view that in most of the developing countries public expenditure on education is much lower than the minimum required (considered 6% of GDP). Interestingly, this is indeed so not only in most of South Asia and China (1.9%) but even in USA (5%) and UK (5.5%). This may be because in high-income countries much of higher education is privatised. Further, the GDP of countries like USA and China being many more trillions of dollars higher than that of India, even smaller percentages for these countries also would be higher in absolute terms.

On quality of education, we use the estimates for 'learning poverty'. Since this index lays emphasis on reading skills, in a way it focuses on foundational learning in many subjects. It is measured as a combination of 'out of school children' and the 'proportion of children in school who have not achieved minimum reading proficiency'. This therefore is a measure of 'quality of school education'. For India and Bangladesh the learning poverty ratios are 55 and 57 percents respectively. This means that close to two-thirds of children in these two countries are not able to demonstrate the expected learning skills. The corresponding percentage for other countries are: China (18), Sri Lanka (14), USA (8%) and UK (3%). This means, in relative terms, the quality of education in these countries is markedly higher.

12.5.2 Health Status

The condition of health of people is an important dimension of development which may not reflect clearly with focus on only per capita income. Likewise, mere high years of life expectancy also may not reflect other aspects of health. For instance, female life expectancy in almost all countries is higher than that of male. But this does not mean that the health condition of women are better than men. It is, therefore, necessary to consider a range of indicators for health (Table 12.4). Life expectancy in India (69) is less than Bangladesh (72) and Nepal (70). These two countries are better off even with respect to 'infant mortality rate' (IMR) [Bangladesh (25), Nepal (27), India (30)]. Sri Lanka's IMR is lowest (6) and is comparable to China (7), USA (6) and UK (4). Maternal Mortality Rate (MMR) is very high in all the South Asian countries (>140) except Sri Lanka (36). A more disturbing feature is the high rate of malnourishment which reflects a form of 'stunting and wasting' in children below five years. Stunting is high in India, Bangladesh and Nepal (>35 in all these 3 countries) and it is much more critical in

Pakistan (45). High levels of stunting is an indicator of poor health in early childhood which has an adverse impact on the productive potential in adulthood. The performance of China on health indicators is therefore comparable to the developed countries like the USA and UK.

Two major determinants of a country's health status are: (i) public expenditure as a percentage of total health expenditure and (ii) government expenditure on health expressed as percentage of GDP. The four poor performing countries among South Asia (viz. India, Bangladesh, Nepal and Pakistan) are also the countries where the public expenditure on health is least (<30%). This means that almost three-fourths of health expenditure in these countries is met 'out-of-pocket' i.e. private expenditure. Government expenditure on health as a ratio of GDP in these countries is also low (ranging from 0.4% of GDP in Bangladesh to 1.2% in Nepal). The involvement of the State in this respect is higher in other countries [Sri Lanka (1.7%), China (2.9%), Brazil (3.9%), South Africa (4.4%)]. In developed countries like USA and UK the involvement of government in health is still higher (UK, 7.8%; USA, 14%). It is thus clear that without substantial increase in public expenditure on health, India would not be in a position to improve its rank on the social dimension of development in spite of high growth rates and growing per capita income.

Table 12.4: Health Development in Comparative Perspective (2017/2018)

Country	Life Expectancy at Birth	Infant Mortality Rate (per 1000 live births)	Maternal Mortality Rate (per 100,000 live deliveries)	Stunting of Children Below 5 (%)	Wasting (Weight for Height) (% Children below 5)	Public Expenditure as % of Total Health Expenditure	Government Expenditure on Health (% of GDP)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
India	69	30	145	38.4	21	25.4	0.9
Bangladesh	72	25	173	36.6	14.3	18.0	0.4
Nepal	70	27	186	35.8	9.7	18.6	1.2
Pakistan	67	57	140	45.0	10.5	27.9	0.8
Sri Lanka	77	6	36	17.3	15.1	43.1	1.7
China	76	7	29	8.1	1.9	58.0	2.9
South Africa	64	29	119	27.4	2.5	53.7	4.4
Brazil	75	13	60	7.1	1.6	33.2	3.9
USA	79	6	19	2.1	0.5	81.9	14.0
UK	81	4	7	-	-	80.2	7.8

Source: World Bank Database on World Development Indicators.

12.6 COMPOSITE INDICES OF DEVELOPMENT

Individual indicators of social and economic dimensions of development discussed in section 12.3 and 12.5 does not enable us to comprehend composite development by way of a single metric like the per capita income. Efforts have therefore been made to combine different socio-economic components into a single value or index so as to arrive at a more comprehensive measure. Some of these measures are: (i) Human Development Index (HDI), (ii) Social Progress Index (SPI), and (iii) World Happiness Index.

12.6.1 Human Development Index (HDI)

The earliest effort for a comprehensive measure of development was made in the form of 'human development index' (HDI) in 1990. The objective of development being to create an enabling environment for people to enjoy long, healthy and creative lives, the HDI defined development as 'a process of enlarging people's choices'. These choices could be seen in three essential aspects viz. (i) leading a long and healthy life, (ii) acquiring knowledge and (iii) having access to resources needed for a decent standard of living. Corresponding to these three aspects, three separate components are selected for the construction of the HDI. These components are: (i) longevity measured in 'life expectancy at birth', (ii) knowledge measured by literacy and (iii) resources for a decent living represented by per capita income. Since 1990, with some modifications, HDI is being calculated for most of the countries. Table 12.5 provides HDI values and ranks for 2019. India with a rank of 129 (from among 189 countries) shows marginally better performance than Bangladesh (135), Nepal (147) and Pakistan (152).

Table 12. 5: Comprehensive Indices of Development

Country	Human Development Index 2019		Social Progress Index 2018		World Happiness 2016-18
	Value	Rank	Score	Rank	Rank
India	0.65	129	56.3	100	140
Bangladesh	0.61	135	52.2	108	125
Nepal	0.58	147	56.1	101	100
Pakistan	0.56	152	49.2	115	67
Sri Lanka	0.78	71	68.0	67	130
China	0.76	85	64.6	87	93
South Africa	0.71	113	-	-	106
Brazil	0.76	79	72.7	49	32
USA	0.92	15	-	-	19
UK	0.92	15	88.7	13	15

It is way down compared to China (85) and Sri Lanka (71). Interestingly, the HDI ranking corresponds to the income performance especially for three out of five

South Asian economies [vide Table 12.1 (PCI within brackets): Sri Lanka ($4102), India ($2010) and Bangladesh ($1698)]. Pakistan's PCI is higher than Nepal but in terms of HDI rank, Nepal's rank (147) is better than that of Pakistan (152).

12.6.2 Social Progress Index (SPI)

Social Progress Index (SPI) is published by an international civil society organisation called 'Social Progress Imperative'. It defines social progress as: the capacity of a society to meet the basic human needs of its citizens. It specifies the achievement of this by establishing the building blocks that allow citizens and communities to enhance and sustain the quality of their lives. It thereby ensures that the conditions necessary for all individuals to reach their full potential is created in a country. The SPI is based on 54 indicators. They encompass three basic aspects viz. basic human needs, foundations of well being and opportunities. The SPI is published regularly since 2014. The SPI for 2018 ranks the countries in our sample as: India (100), Bangladesh (108), Nepal (101), and Pakistan (115). These four countries are at the near bottom of the 146 countries ranked. China (87), Sri Lanka (67), Brazil (49) and UK (13) are way above in this regard.

12.6.3 World Happiness Index (WHI)

In July 2011, the UN General Assembly passed a historic resolution. It invited member countries to measures the happiness of their people and use this to help guide their public policies. Following this, the OECD came out with 'Guidelines for the Measurement of Subjective Well-being'. The first 'World Happiness Report' was brought out in 2012. Based on six indicators (corruption, generosity, years of life, life experience, sense of freedom and GDP per capita), the happiness index is constructed on a scale of 0 to 10. The report for 2016-2018, surveys 156 countries and ranks them (Table 12.5). India with a rank of 140 ends up at the bottom of the ten countries compared here. Pakistan which was a much lower performer in most of the other socio-economic dimensions considered before, emerges on the top of all the six Asian countries in terms of happiness (67). Sri Lanka which was on top of Asia in many aspects, recedes to a much lower happiness ranking (130). Brazil (32), USA (19) and UK (15) are the leading countries ranked higher in this regard. The subject of 'well-being' is, however, a still nascent idea. With further refinement over time, it must be able to sort out the above anomaly.

Check Your Progress 3 [answer within the space given in about 50-100 words]

1) Why was 'adult literacy' historically considered for measuring the level of education in a country? What has been the recently reoriented emphasis?

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2) What is India's position in respect of 'gross enrolment rate (GER) in secondary education'?

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3) Where does India stand on 'mean years of schooling'? In which respect, India's position is better than other countries in the South Asian region?

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4) State the two major determinants of a country's health status.

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5) How is 'social progress' defined? What is the relative position of India in respect of Social Progress Index?

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12.7 LET US SUM UP

The limitation of PCI as a means for measuring the relative development of countries has led to construction of composite indices like HDI and SPI. The development of these measures has enabled according due importance to the basic factors which matter in creating wealth in a country. In this effort, the social factors of education and health have received due weightage. In the comparative profile of ten countries made in the unit, the position of India is seen to be just above its three Asian neighbours viz. Nepal, Bangladesh and Pakistan. Substantial increase in public expenditure in social sectors, both education and health, is vitally needed for India to improve its position by improving its rank in its overall development.

12.8 SOME USEFUL REFERENCES

1) Dreze, Jean and Amartya Sen (2013). An *Uncertain Glory: India and Its Contradictions, Allen Lane,* Penguin Books, London.

2) Nayyar, Deepak (2019). *Resurgent Asia: Diversity in Development,* Oxford University Press, New Delhi.

12.9 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) PCI does not relate to distribution of income but merely to the total magnitude of income expressed in per capita terms. It is useful differentiating countries into developed-developing and for categorising economies based on their average income level.

2) The framework should have representation from all category of countries across the developing-developed divide. It should cover a fairly large proportion of population of the world. The sample of countries chosen is justified since they cover more than 50 percent of global population.

3) Population, per capita GDP, long term average annual growth rate in GDP, share of agriculture in total employment and its contribution to GDP.

4) China gained a giant leap over India by registering an impressive long term annual average growth rate of 6.8 percent over the period 1961-2011. India, though figured far less impressively in this respect, has managed to catch up with China in this respect in recent times. Sri Lanka’s graduation to upper middle income category is notable for its structural shift in terms of lower agriculture employment and agriculture GDP share (7.9 percent).

5) Bangladesh for having moved up to ‘upper middle income group’ and Nepal for having lifted itself up from ‘low income’ to ‘lower middle income’ group.

6) Structural dimension refers to an impressive shift in lowering the employment and GDP share of a country from its agricultural sector. Sri Lanka is the only country in the sample of 5 South Asian countries to have managed to reduce the employment-GDP share from agriculture to comparable levels with China.

Check Your Progress 2

1) Deficits of development refers to prevalence of poverty and unemployment despite rising PCI with growth. It also signifies widening of inequality in the society.

2) In case of India, Sri Lanka, China, there is evidence to see that with rising income (GDP), there is reduction in poverty. However, in case of South Africa there is income rise but poverty ratio is also very high (56 percent in 2014).

3) It is because of large proportion of employment being informal where disguised unemployment is very high.

4) Novel methods are employed by WID to generate data on income comparable between countries. Its trend reveals that inequality in South Asian economies is around 40+ percent for India and Bangladesh and much lower at just above 30 percent for Nepal and Pakistan. It is highest for Sri Lanka and China (both equal to 49 percent).

5) Developed countries too have high inequality of 32 percent in UK and 39 percent in USA (in 2018). This compares with that of 33 percent in Nepal and 32 percent in Pakistan (in 2018).

Check Your Progress 3

1) Because it was expected to reveal historical neglect or achievement in the educational status of people. The more recent emphasis is on ‘access, equity and quality’ of education.

2) It is bracketed with Bangladesh and Nepal with more than 25 percent of eligible students still staying out of the secondary education system.

3) India stands somewhat in the middle of the 10 countries chosen for comparison with its mean years of schooling at 6.5 years. In respect of enrolment in tertiary education, India’s position is better than the other four countries of South Asia including South Africa.

4) (i) public expenditure as a percentage of total health expenditure and (ii) government expenditure on health expressed as percentage of GDP.

5) Social progress is defined as: the capacity of a society to meet the basic human needs of its citizens. On SPI, India ranks just above Bangladesh, Nepal and Pakistan.

UNIT 13 TRADE AND BALANCE OF PAYMENT*

Structure

13.0 OBJECTIVES

After reading this unit, you will be able to:

- indicate the benefits of trade specifying its three dimensions of measurement;
- define the term ‘balance of payment’ (BoP);
- specify the classificatory framework of a BoP account;
- delineate the concepts of ‘BoP Account Deficit or Surplus’;
- state why high ‘current account deficit’ (CAD) is undesirable for the health of an economy ;
- present an account on the process of ‘liberalisation of capital account’ in India;
- make a comparative profile of CAD between the developed and developing economies of the world;
- highlight the importance of ‘settlement account’ in BoP; and
- enumerate the factors which influence ‘current account balance’ in BoP.

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13.1 INTRODUCTION

Even at the time of primitive stages of development, economies were engaging in trade with other countries. Now, most modern economies are engaged in free trade. Such interactions with other economies widen the choice for consumers. Producers can increase their scale of production and find new markets for their goods. International trade, thus, has the potential to facilitate both production and consumption. Countries also get the opportunity to have foreign companies setup their production units in their countries. These transactions create the need to keep a systematic record of all transactions. The account which records all such transactions is called 'balance of payment (BoP) account'. The concept of BoP is central to understanding the international conflicts relating to trade and exchange rate. In the globalised world, foreign trade plays a vital role in the development of any economy. It is, therefore, important to have measures of foreign trade so that a government can take necessary step to steer its economy in the desired direction. The magnitude of foreign trade is calculated in terms of its: (i) volume, (ii) composition and (iii) direction. Volume of trade tells us the size of international transactions. It is measured in value terms and is accounted separately for both exports and imports of a country. Composition of trade refers to the major commodity or sectors in which a country is exporting and importing. Direction of foreign trade is indicative of the economic linkages with rest of the world. It tells us the countries to which India exports its goods and the countries from which it imports. Thus, direction consists of destination of exports and sources of our imports. It reflects the pace of economic development of the country. This is because, as the country begins to trade with a large number of countries, economic development becomes faster.

13.2 BALANCE OF PAYMENT (BoP) ACCOUNT

Foreign trade requires international currency. If a country's exports are high, then the country can accumulate surplus foreign currency reserves. But in case of a developing country having high imports as compared to exports, there is always a deficit of foreign exchange. It is necessary to strive for a balance of international trade to have the surplus required to pay for necessary imports. In order to keep a check on foreign exchange reserves, an accounting statement is prepared giving an exact profile of country's transactions with other countries in a financial year. This is known as the 'balance of payments' (BoP) of a country. It is a systematic record of all economic transactions between the residents of a country and the rest of the world. It comprises of: (i) all receipts on account of goods exported, services rendered and capital received by residents and (ii) all payments made by the residents for goods imported, services received and capital transferred to non-residents or foreigners.

Balance of payment provides the government with the data needed for the formulation of fiscal and monetary policies. For instance, to reduce the nation's borrowing, the government can levy a tax on certain imports. Such a tax contributes to reducing the 'current account deficit' (CAD) of a country. CAD refers to a situation where the total value of a country's imports (M) exceeds the total value of its exports (X) i.e. $(M - X) > 0$ or $(X - M)$ i.e. $CAD < 0$. The current account of the BoP captures the details of exports and services which is important for negotiating the trade policy of a country with its trading partners. Likewise, the Balance of Payment information is also important for firms, investors and banks even though they might not be involved in international trade and finance. Their interest would be to assess the financial stability of a country.

13.2.1 Components of BoP Account

The classificatory framework of the BoP account comprise of three account heads viz. (i) current account, (ii) capital account and iii) reserve assets account. The current account records all current year transactions of flow of goods and services (exports and imports) during a given financial year. It has two sub-parts viz. 'trade account' which records export and import of 'goods' [called 'balance of trade' (BoT)] and 'transaction of other invisibles' (like financial services, insurance services, shipping services, etc.). The latter (i.e. 'transaction of other invisibles') is thus mainly a record of movement of services [hence called the 'balance of services (BoS) account'] during a financial year. The two, BoT and BoS, together constitute the 'current account' of BoP account. Capital account (in the BoP account) shows receipts of capital and payments between the country and rest of the world. It includes foreign investment flows, external loans, borrowings and other items like loans or donations. A third important component of BoP account is the government's 'official reserve assets' accounts. This comprises gold stock, holdings of convertible foreign currencies and 'special drawings rights' (SDRs). This account acts as a balancing item for current and capital account deficits and hence also serves as the official account on 'foreign exchange reserves'. There will be a decline in this account if the net outflow of foreign exchange is high compared to the net inflow or when the total disbursement on the current and capital accounts exceeds the total receipts. Ideally, the balance on current account and capital account needs to be offset by the 'official reserve assets' account.

13.2.2 BoP Account Deficit or Surplus

A country is said to face a BoP deficit situation when the value of its total imports (of goods, services and investment income i.e. capital inflow) exceeds the value of exports (of goods, services and capital outflow). Conversely, a country will face a surplus of BoP account when the total value of exports of 'goods, services and capital inflow' exceeds the value of imports of 'goods, services and capital outflow'. Formally, in terms of 'national income accounting' identity i.e. in terms of 'aggregate expenditure' and 'aggregate output' this can be written as:

$$\text{Aggregate Expenditure (AE)} = \text{Consumption Expenditure (C)} + \text{Private Investment (I)} + \text{Government Spending (G)} + \text{Exports (X)} \qquad (13.1)$$

$$\text{and Aggregate Output (Y)} = \text{Consumption (C)} + \text{Savings (S)} + \text{Taxes (T)} + \text{Imports (M)} \qquad (13.2)$$

The economy is in equilibrium when AE = Y. That is:

$$C + I + G + X = C + S + T + M \qquad (13.3)$$

$$\text{or, } I + G + X = S + T + M \qquad (13.4)$$

$$\text{or, } X - M = (S - I) + (T - G) \qquad (13.5)$$

The component (X – M) is the net of exports and imports (i.e. current account deficit), (S – I) is 'savings-investment gap' and (T – G) is the 'budget deficit'. Assuming a balanced budget (i.e. T = G), net exports in the economy can be linked to the savings-investments gap. Hence, a country with a 'current account deficit' (CAD) will have to fund its deficit from international borrowing. We can, therefore, see why 'current account deficit' is the same as the 'BoP deficit'.

13.2.3 Current Account Deficit (CAD)

Ideally, the CAD [i.e. (X – M)] should be positive. A negative CAD implies that total imports are higher than total exports. Such a deficit can be financed by foreign investments or debt. This can, however, be problematic if the country is unable to re-pay its debt. In such situations, a country is said to face a 'BoP crisis'. Another way by which CAD can be financed is by external borrowing i.e. either from other countries or financial institutions like IMF. In the long run, however, it is not sustainable to finance consumption with borrowing. This is because countries with large interest payment would often have less investment. For long term growth, it is important to have more investment as current investment fuels future growth.

A widening CAD implies the country will need more foreign currency than domestic currency. An excess demand for foreign currency would, in turn, imply a weaker domestic currency. This could result in cost-push inflation especially if the country's foreign basket comprises more of imported goods. A rising 'trade deficit' could also be indicative of the domestic industries being unable to compete against cheaper imported goods. This might result in loss of jobs as domestic manufacturers might have to shut down their establishments. This could especially be true for infant industries in the trade-deficit country. In such a situation, the trade unions might demand protectionist measures against imports. In view of these factors, it is important to keep the CAD under control.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What is meant by a 'Balance of Payment Account'?

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2) State the three dimensions in terms of which BoP account is measured? In what way they are useful?

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3) What is meant by a BoP of a country? In what way is it useful?

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4) State the three main 'heads of account' of BoP. In particular, what are the two sub-heads of the 'current account of BoP' and what do they capture?

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5) What is 'current account deficit' (CAD)? What does a widening CAD imply?

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13.3 LIBERALISATION OF CAPITAL ACCOUNT IN INDIA

Capital account liberalisation is a process by which a country eventually attains the status of full convertibility of its BoP's 'capital account'. It is ideal to liberalise 'current account' before liberalising 'capital account'. This is because liberalisation of capital account makes an economy susceptible to massive exchange rate fluctuations. Wide speculation in international markets can trigger massive inflow and outflow of capital causing instability in the capital account. Likewise, massive capital inflows will put appreciation pressure on the domestic currency affecting the competitiveness of domestic exports which, in turn, worsens the CAD (current account deficit). Thus, a natural order to follow is to first liberalise the 'current account' and then adopt 'capital account convertibility'.

India's experience of 'capital account liberalisation' needs to be looked at in three phases: (i) 1950-1990, (ii) 1990-92 and iii) 1992 onwards (post-liberalisation). In the early years of India's independence, there was a focus on industrial development in the public sector. This required massive import of technology and machines (particularly of capital goods) which exerted pressure on BoP account of India. Despite this, India witnessed a surplus in its 'current account' of BoP from 1950 to 1954. During the second five year plan (1956-61), rapid industrialisation through the development of basic and heavy industries were adopted. This led to an unfavourable balance on 'current account' during the decade of the 1960s. India had to seek external assistance by way of loans from the World Bank and IMF. Heavy trade deficits, debt obligations and a sharp fall in foreign exchange reserves led to the first devaluation of the rupee in 1966. In the early 1970s, though exports grew, there was also a large increase in imports leading to continued trade deficits. Despite this, in the year 1973-74, India enjoyed substantial 'current account surplus'. This was largely due to surplus in terms of 'invisible transfers' (e.g. inflow of foreign aid). After 1973, there was a gradual increase in crude oil prices in the international market resulting in a sharp increase in the total import bill of the country. The export performance continued to suffer by the severe international recession of 1980-83. The repayments to IMF during this period put an added pressure on India's BoP. In spite of significant external assistance, commercial borrowings and non-resident deposits, India's external debt too increased.

By 1990-91, India had witnessed three major developments which contributed to a 'BoP crisis'. Firstly, during the late 1980s, oil prices witnessed a sharp increase. This was followed by the Gulf war which led to further increase in the oil import bill of the country. Secondly, there were many Indian which was a good source of remittances. The gulf war rendered the Indian worked to return home stopping the remittances from Indian workers. Thirdly, USSR, which was a high destination for Indian exporters, witnessed disintegration into many smaller countries. The economy of these newly independent countries themselves faced an economic crisis. This led to a decline in exports to USSR. All these factors led to a dwindling of India's foreign exchange reserves (from a level of Rs. 54800 million at the end of August 1990 to Rs. 16660 million in January 1991 i.e. a steep decline of nearly 70 percent reserves). By June 1991, the level of foreign exchange reserves dropped to such an extent that it was insufficient to finance the necessary imports. As a result, the Indian economy witnessed sharp inflation leading to India experiencing the worst ever 'BOP crisis' since independence.

During the economic reforms initiated in 1991, macro-economic stabilisation measures were introduced to control the crisis. Drastic changes in trade policy, devaluation of the rupee, rupee convertibility, tariffs cuts and import liberalisation were introduced. For the first time, the union budget of 1992-93 made the Indian rupee partially convertible. This was an inevitable move for the integration of Indian economy with the rest of the world. Under this, 60 percent of exchange earnings were convertible in rupees at market determined exchange rate and the remaining 40 percent earnings at the officially determined exchange rate. The term convertibility (of a currency) indicates that it can be freely converted into any other currency. Convertibility thus gives freedom in terms of removal of quantitative restrictions in trade and payments made on 'current account'. It establishes a system where the market determines the exchange rate by a free interplay of demand and supply forces. During 1993-94, the BoP position improved due to growth in exports, fall in international prices of crude oil and the slack in the growth of non-oil imports. During 1994-95, both exports and imports grew significantly (exports by 18.4 percent and imports by 22.9 percent). Due to this, India's 'invisible payments' rose considerably and as a result, India's 'current account deficit' (CAD) also widened. But the total capital flows in 1994-95 were much in excess of financing needs and hence the build-up foreign exchange reserves was good. The surge in exports and imports continued in 1995-96. But the CAD also grew touching 1.7 percent of GDP. The CAD narrowed down to about 0.5 percent GDP in the year 2000-01. It has largely continued to remain low (around 2-3 percent range) since then (e.g. 0.7 percent of GDP in 2016-17 and 1.8 percent of GDP in the first half of 2017-18). Since 2002-03, there was a sharp increase in India's 'invisibles account' due to significant rise in gross receipts and payments. The strong growth in services exports, especially of software and Information Technology (IT) services, and remittances from overseas contributed to this. During the period 2001-08, the 'invisibles receipts' constituted around 45 percent of current account receipts, while invisible payments accounted for around 25 percent of current account payments. The lower order of payments vis-à-vis receipts in the 'invisibles account' contributed to the build-up of significant surplus accounting to an average growth of nearly 35 percent over the period 2001-08 which fully financed the trade deficit over the corresponding period.

It is considered remarkable that India made these achievements in the face of appreciation of rupee, high interest rates, spiralling oil prices and general economic slowdown in the major trading countries in the world. It is important to note that the rising trend in capital inflows was accompanied by a change in its composition (e.g. services upsurge). Another welcoming feature was the rise in gross FDI (foreign direct investment) inflows. India emerged as the second most favoured FDI destination after China in 2005 and 2006. This led to an overall BoP surplus resulting in an accretion of foreign exchange reserves. Presently, large merchandise trade deficit coexist with a lower CAD because of the surplus on 'services account'.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) Why is it preferable to liberalise 'current account' of BoP before its 'capital account'? What does 'full convertibility' imply?

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2) When was the first devaluation of Indian rupee done? What circumstances led to this?

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3) State some situations which marked India's continued the situation destabilised on the BoP front during the 1970s and 1980s?

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4) What policy changes were introduced during the early years of 1990s to cope with India's worst ever 'BoP crisis' since independence?

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5) What factors contributed to result an ease on the BoP front in the early 1990s? What was the level of CAD through 1990s to early 2000s?

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6) What factors contributed to a further ease in the BoP situation during the later years of first decade of 2000s?

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13.4 INTERNATIONAL COMPARATIVE PROFILE OF CAD

It is important to understand the linkage between the 'current account deficit' and the development stage of an economy. It is a well-known fact that the LDCs (low developing countries) and the UDCs (under developing countries) need larger funds to import capital goods. This does not mean that a developed country does not import much. As we saw above, CAD (current account deficit) measures a country's saving gap i.e. the excess of investment over savings. This gap is bridged by the net transfer of resources from the rest-of-the-world to the country running the deficit. This implies that higher CAD by itself cannot be bad for an economy so long as it has sufficient flow of foreign funds. However, in a developing country, high CAD can sometimes become an alarming situation. Developing countries need a push-through investment and if it is to a great measure from the rest of the world, it means that it will not be able to sustain financing fresh investments with its own savings. Ultimately, therefore, it comes down to an economy's ability to absorb and service its capital inflows. If the resources can be distributed in such a way as to enhance its ability to repay (through production), a high CAD to GDP ratio could be sustainable. If they cannot, it can become a hindrance for the development path of an economy. Too high a ratio can prove unsustainable in the long run as it happened in East Asian economies (in late 1990s) and in Mexico slightly before (1994). To that extent, low ratio of CAD has its advantages. But, very low ratio carries with it an opportunity cost i.e. of not being able to benefit from resources that could be drawn from outside. This is the reason why every economy wants to control its CAD by which is meant maintaining a healthy or sustainable balance. It is, therefore, important to note that high CAD is not necessarily a hindrance in the economic development of a country.

13.4.1 CAD and Developing Economies

Developing countries usually lack in technology. Due to this reason, they have to depend on imports for technology and machines which accounts for a substantial part of their BoP. Besides importing high amount of capital goods, to stimulate the process of development, developing economies also have to import consumer goods, raw materials and spares. R&D and innovation in the initial stages of development usually remain low and hence they have to import many kinds of services too from developed economies. In such a scenario, total amount of import cannot be matched by export earnings which results in high CAD. In the last few decades, the process of globalisation has given some advantage to developing countries by way of exporting their human resources. This has propelled developing economies from being a debtor economy to a creditor economy. In other words, globalisation has contributed positively to not only get investment but also technical knowledge. For instance, China, by controlling their imports and boosting low cost manufacturing exports, managed to attain a status of 'surplus current account'. In 2017, its current account surplus was 1.3 percent of its GDP which was a decline from 1.8 percent in 2016. This ratio has been steadily falling from a high of 10 percent in 2007. This trend has continued and in 2018 it turned around to become a country with a CAD of 0.4 percent of its GDP. Other examples in this category are Iran and Iraq.

13.4.2 CAD and Developed Economies

Developed countries usually have a strong manufacturing sector. They therefore export technology and machines to developing economies. But they also experience large CAD. For instance, the US had a CAD of 2.3 percent in 2017 which is substantial given its large economic base. Other developed economies with a CAD of around this value (in 2017) are: Turkey (5.6 percent), Argentina (4.9 percent), U. K. (3.7 percent), Egypt (3.4 percent) and Australia (2.7 percent). Conceptually, 'current account surplus' (CSS) is opposite to CAD which is a situation where the value of (X – M) is positive (which is the reverse with a negative sign for CAD). Some examples of developed countries which have high CSS (in 2017) are: Germany, Japan, China, South Korea, Netherland, Taiwan, Switzerland, Singapore, Italy and Thailand. This brings us to an important concept of 'settlements account' of BoP.

13.4.3 Settlements Account

Deficit or surplus in the BoP account is an ever-changing state i.e. it changes from one year to the next. The overall health of BoP, and its impact on a country, can be measured by the 'settlements account' of BoP (which is also called as 'the official reserve assets account'). The 'settlements account' measures the change in nation's position of 'liquid and non-liquid liabilities' and thereby the change in a nation's official 'reserve assets' during the year. The official 'reserve assets' of a country include its gold stock, holdings from its convertible foreign currencies and 'special drawing rights' (SDRs). It shows transactions in a country's net official reserve assets.

In India, foreign exchange reserves denote the foreign assets held or controlled by the Reserve Bank of India. The reserves are made up of gold or a specific currency. They can also be special drawing rights and marketable securities denominated in foreign currencies like treasury bills, government bonds, corporate bonds and equities and foreign currency loans. In terms of the official 'reserve assets' (in 2018), China held the number one position followed by Japan, Switzerland, Saudi Arabia, Taiwan, Russia, Hong Kong, India, South Korea and Brazil. The countries listed here being in the descending order of the magnitude of 'reserve assets' held, it shows that for any particular year the relative health of an economy depends also on its 'built reserves' rather than on the current account of the BoP alone. It shows the resilience or the stability of a country's currency to attract capital flows to fund its CAD with the country's growth prospects seen as good. In other words, higher 'reserve assets' are reflective of an investment environment of a country whose financial markets are not prone to frequent speculative attacks. In such an economic climate, foreign investment (FDI in particular) contributes to augmenting the export capacities of the economy. In the long run, it helps in narrowing the CAD to more sustainable levels.

13.4.4 Factors Influencing Current Account Balance

Current account imbalances arise for a number of reasons. Sharp commodity price swings at international level is one of the major factors. For instance, there has been a sharp increase in crude oil prices over the last decade. This particular feature in the global prices of crude oil has the potential to affect the spending pattern of most of the countries. Another factor is that a country may begin to serve as a major hub for foreign firms in manufactures while its own population may lack the earning capacity to consume imports on a scale sufficient to balance-out its rising income from surging exports (e.g. China). This factor becomes stronger with free trade treaties. A third factor is when a country suffers from protracted domestic demand stagnation by an excessive reliance on exports for its growth (e.g. Japan and Germany). Finally, current account imbalances might also result from the loss of competitiveness at the national level. International tensions between countries also affect the 'terms of trade' (ToT).

Check Your Progress 3 [answer within the space given in about 50-100 words]

1) Is it always a hindrance for an economy to have higher CAD? Why?

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2) In what way China's case is illustrative on the relative merits of high/low CAD? What empirical evidence can you cite in support of this context?

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3) How has globalisation proved particularly beneficial for developing economies?

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4) What is meant by 'settlements account'? How is this important?

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5) State the factors which affect 'current account balances'?

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13.5 LET US SUM UP

International trade (i.e. trade between countries) is important for reaping the benefits of comparative advantage. While both exports and imports are equally important, it is necessary to have a country's exports on the higher side as compared to its total imports. If this could be achieved, it leaves a country in a state of 'current account surplus'; else, in a state of CAD (current account deficit). A system of systematically recording all transactions of exports and imports of a country, with countries in the rest of the world, is what is referred to as BoP account. By focused policies, it is possible to convert the status of a country from a CAD country to a country with CSS (current account surplus). Given that it is a year-to-year changing status, it is not necessarily bad to be even in a state of substantial CAD. What is important is to have enough capital flows required to finance a country's debt or international payment obligations. Against this backdrop, the unit discusses many important concepts like BoP, BoP account, components of BoP (viz. current account, capital account and reserve assets account), CAD, CSS and settlements account. Besides drawing a comparative profile of CAD and CSS of many countries vis-à-vis India, the unit indicates the various factors responsible for causing 'current account imbalance'.

13.6 SOME USEFUL BOOKS AND REFERENCES FOR FURTHER READING

1) Basu, Kaushik (ed.) (2008). *The Oxford Companion to Economics in India,* OUP, New Delhi.

2) Basu, Kaushik and Annemie Maertens (eds.) (2011). *The New Oxford Companion to Economics in India,* OUP, New Delhi.

3) Ratha, D, S Mohapatra and Z Xu (2008). *Outlook for Remittances 2008-10*, Development Prospects Group, Migration and Remittances Team, World Bank.

4) Suparna Karmakar, Rajiv Kumar and Bibek Debroy (eds.) (2008). *India's Liberalisation Experience,* Sage, New Delhi.

13.7 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) It is a systematic record of all transaction on exports and imports of a country to other countries.

2) Volume, composition and direction. Volume is measured in 'value terms' and indicates the size of international transactions. Composition refers to the commodity or sectors involved in exports and imports. Direction indicates economic linkage with other countries of the world. It consists of destination of a country's exports and source of its imports.

3) BoP is an accounting statement giving an exact position on account of exports and imports of a country between the residents of the country and the rest of the world. It is useful to know a country's position on its 'foreign exchange reserves'. For the government, it is useful to formulate its monetary and fiscal policy. It is also useful as an indicator of the health of an economy.

4) The three main heads of account of BoP are: current account, capital account and reserve assets account. The two sub-heads of current account are: BoT and BoS i.e. 'balance of trade' and 'balance of services'. BoT and BoS respectively captures the record of export and import of 'goods' and 'services' respectively. The 'current account of BoP' = BoT + BoS.

5) CAD refers to the gap between total exports and total imports. The term deficit implies that it is happening the other way round i.e. instead of exports being higher than imports, it is the imports which is exceeding the exports. The gap or deficit is expressed with a 'negative' sign which needs to be balanced by borrowing or debt. A widening CAD implies a higher negative value and need for more borrowing.

Check Your Progress 2

1) Liberalisation of capital account makes an economy susceptible to massive exchange rate fluctuations. Wide speculation in international markets can trigger massive inflow and outflow of capital causing instability in the capital account. It is therefore prudent to first liberalise 'current account' and

then gradually adopt 'capital account convertibility'. Full convertibility implies free convertibility on both the 'current' and the 'capital' accounts of BoP.

2) In 1966. Heavy trade deficits, debt obligations and a sharp fall in foreign exchange reserves led to this.

3) Gradual increase in crude oil prices in international market resulting in a sharp increase in the total import bill after 1973, severe international recession of 1980-83, repayments to IMF, sharp increases in oil prices during the late 1980s followed by gulf war, disintegration of USSR resulting in lowered exports to these newly formed countries, etc.

4) Changes in trade policy, devaluation of rupee, rupee convertibility, tariffs cuts, import liberalisation, partial convertibility of rupee, etc.

5) Growth in exports, fall in international prices of crude oil and the slack in the growth of non-oil imports. In 1995-96, the CAD was 1.7 percent of India's GDP. By 2000-01, CAD further slid to 0.5 percent of GDP.

6) Sharp increase in India's 'invisibles account' due to significant rise in gross receipts and payments since 2002-03, strong growth in services exports, especially of software and Information Technology (IT) services, and remittances from overseas.

Check Your Progress 3

1) No. Economies might be able to sustain servicing of capital inflows provided the financial inflows are productively channelled. If the economic climate is managed healthily, then investments made from such inflows generates domestic incomes which helps in sustaining the economy to service its inflow of finance.

2) China's is a unique case where from a status of a very high level of CAD, it has managed to transform itself to a country with CSS in recent years. This it has managed with controlled imports and steady boost of its 'low end manufactured goods' export. In empirical terms it has managed its CAD of nearly 10 percent level to gradually go down to – 0.4 percent over the period 2007-2018.

3) Globalisation effectively shifts investment from a capital surplus country to a capital deficient (but potentially economically rich) countries. Developing countries are characteristically rich in cheap unskilled labour, rich skilled workforce, specific types of raw materials and natural resources. They typically lack the technology (which comes with huge investment) needed to harness their otherwise rich human and material resources. Viewed from this angle, the experience of many developing countries over the last 3-4 decades testifies for the beneficial aspects of globalisation.

4) While the actual CAD i.e. (X – M) can be positive or negative (deficit if negative and surplus if it is positive, its actual impact on the economy is determined by the country's 'settlements account'. The 'settlements account' is a measure of the change in a nation's position of 'liquid and non-liquid liabilities'. Thus, while (X – M) takes only the liquid assets, the 'settlements account' includes the value of non-liquid assets like "gold stock, holdings from convertible foreign currencies and 'special drawing rights' (SDRs)". For any particular year, the relative health of an economy also depends on its

‘built reserves’ rather than on the current account of the BoP alone. The importance of the ‘settlements account’ is indicative from the fact that it reflects the resilience (or the stability) of a country’s currency to attract capital flows to fund their CAD (with the country’s growth prospects considered good).

5) Sharp commodity price swings at international level, large part of a country’s domestic population lacking in purchasing power needed to consume imports (on a scale sufficient to balance-out its rising income from surging exports – a factor which becomes stronger with free trade), domestic demand stagnation (on account of an excessive reliance on exports for growth), loss of competitiveness at the national and international levels and international tension between countries.

UNIT 14 GOVERNANCE AND INSTITUTIONS *

Structure

14.0 OBJECTIVES

After reading this unit, you will be able to:

- outline the features of the broad types of government;
- distinguish between government and governance;
- delineate the relationship between type of government and development;
- differentiate between 'governance' and 'good governance';
- highlight the two important constituents of governance differentiating it for its economic and institutional importance;
- discuss the important governance indicators with an appraisal of their significance for development; and
- describe in brief India's relative position in terms of quality of governance institutions with those of its neighbouring economies.

14.1 INTRODUCTION

The use of the concept of governance, and institutions, in development studies is of a relatively recent origin. Hence, there is as yet no universally accepted definition of governance or institutions. In light of this, the literature on the

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subject is confined to some research studies and reports of multilateral organisations like the WB (World Bank) and the UNDP (United Nations Development Programme).

Ever since the evolution of Development Economics in the immediate post-Second World War period, one of the important subjects of debate has been the role of 'state' in development. This is in contrast with the role of 'market' in development as made in the mainstream economics. During the 'Cold War' period, there was a political divide between the Socialist and the Capitalist blocks. The development debate then assumed an ideological undertone in the form of 'state versus market'. In the 1960s, the rapid strides in growth achieved in Japan and South Korea were seen as driven by the initiatives of the state. These states had come to be characterised as 'developmental state'. Such key features of a 'developmental state' were later applied to other East and South-East Asian economies like Hong Kong, Singapore and Taiwan. There were other countries like India where state played a vital role but with very low growth rates. By the late-1980s, with the disintegration of the Soviet Union and the end of Cold War, the slow growth in state-led economies like India was attributed to 'state-failure'. This turned the debate on development towards 'good governance' to facilitate market-driven growth. By early 1990s, Western governments and aid institutions made 'governance' a key condition for providing economic aid. With it there was a distinct turn towards research on 'governance issues and institutions' in development. More recently, the UNESCAP (2017) report observed that: 'the quality of governance and the effectiveness of public institutions are critical factors that contribute to the process of development'.

14.2 GOVERNMENT AND GOVERNANCE

In a literal sense, the two terms 'government' and 'governance' are used interchangeably. But with the growing use of the term governance in its institutional dimension, government is differentiated for its political stance and is seen for the manner in which authority (i.e. legitimate power) is exercised. While power is the ability to influence the behaviour of others, authority is the right to do so. Therefore, government is an authority in a country to exercise legitimate power. The terms government and state are often used interchangeably.

14.2.1 Types of Government

Governments are broadly classified into three types viz. monarchy, dictatorship and democracy. Monarchy is the traditional form of inheritance of authority by a king or ruler to exercise legitimate power for ruling a country. This is a rare exception in the present times. Hence, dictatorship and democracy, in their various hues, are the two widely prevalent forms of government across the countries at present.

Dictatorship is an authoritarian regime defined as a system in which the concentration of power lies within a few hands. In its worst form, there is a single individual-centred dictatorship. The strategies that dictators use in order to be in power include: use of force, suspension of civil liberties and denial of voice or freedom to people, self-regulated constitutional process, patronage, propaganda (which are but fascist tendencies), etc. Most of the dictatorships are either backed by the military or are direct military regimes with suspended rights of representation by the people.

Democracy, is a form of government, marked for a shift of legitimate power to people through representative governments. The shift of legitimate power to democratic rule has a long history and is depicted in terms of three 'waves of democracy'. The first wave was the 'Glorious Revolution of 1688' in England with the monarchy conceding more power to 'parliament, free elections and freedom of speech'. The 'second wave' of democracy, also a shift from monarchy to democracy, was seen in the 'French Revolution of 1789' with an emphasis on 'liberty, equality and fraternity'. Though there is a certain ideological bias, the disintegration of Soviet Union and the fall of socialist regimes in Southern Europe by the late 1980s, is depicted as a 'third wave of democracy'. This third wave marks a shift from not only authoritarian regimes to democracies but also a shift from 'state-driven economies' to 'market facilitating states'. It is this notion of the democratic state as a facilitator state that brought 'governance' to the centre stage of development debate. In terms of the types of governments across countries in the world, though there is a widespread belief that democracy is the dominant form of government across the countries, the reality is otherwise.

Through a complex exercise, the Intelligence Unit of 'The Economist' publishes a 'Democracy Index' of more than 160 countries since 2006. The Democracy Index is based on five categories of indicators viz. (i) electoral process and pluralism, (ii) the functioning of government, (iii) political participation, (iv) political culture and (v) civil liberties. Based on its scores on a range of indicators within these categories, each country is classified as one of the four types of governments viz. full democracy, flawed democracy, hybrid regime or authoritarian regime. The latest Democracy Index for 2019 shows that only 22 countries (representing about as little as 6 percent of world's population) are 'full democracies'. As many as 54 countries (covering another 36 percent of world's population) are 'authoritarian regimes'. The democracy index is a composite score assessed for all the five indicators above and is expressed on a scale of zero to ten where a country scoring more than 8 is regarded as a full democracy. India, with a score of 6.9, and with a rank of 51 out of 167 countries, belongs to the category of 'flawed democracies'. This category shows that these countries suffer from several democratic deficiencies. Table 14.1 shows a comparative picture of six neighbouring South Asian countries to India in this regard. Their overall rank in the world is: India (51), Sri Lanka (69), Bangladesh (80), Nepal (92), Pakistan (108) and China (153). In particular, China figures as an 'authoritarian regime. In contrast, Scandinavian countries like Norway (1) and Sweden (3) are on the top with near perfection as 'full democracies'.

Table 14.1: Democracy Index 2019

Country	Electoral Process and Pluralism	Functioning of Government	Political Participation	Political Culture	Civil Liberties	Overall Score	Rank
India	8.7	6.8	6.7	5.6	6.8	6.9	51
Bangladesh	7.8	6.1	6.1	4.4	5.0	5.9	80
Nepal	4.8	5.4	5.0	5.6	5.6	5.3	92
Pakistan	6.1	5.7	2.2	2.5	4.7	4.3	108
Sri Lanka	7.0	6.1	5.6	6.3	6.5	6.3	69
China	0.0	4.3	3.3	2.5	1.2	2.3	153
Norway	10.0	9.6	10.0	10.0	9.7	9.9	1
Sweden	9.6	9.6	8.3	10.0	9.4	9.4	3

Note: Score: 8 to 10 = Full Democracy, 6 to 8 = Flawed Democracy, 4 to 6 = Hybrid, 0 to 4 = Authoritarian

Source: The Economist Intelligence Unit, 2020.

14.2.2 Government and Development

Does the type of government make a difference to development? The answer is: 'yes'. Economic growth is expected to be sub-optimal under dictatorship for the following reasons: First, in order to safeguard their roles, dictators use much of the revenues expropriated from the public for expenditure on military, police and secret service with lower priority to social development like health, education and social security. Second, fear of expropriation discourages the investors, new entrants and innovators in making investment. Third, Authoritarian regimes perpetuate inequalities because of their dependence on the support of the rich and treat the poor as a threat. Most of the strategies of the authoritarian regimes are socially undesirable. In view of this, over the years in the 20th Century, most of the authoritarian regimes have yielded place to democratic transition in response to strong and sustained peoples mobilisation against them. Yet, even in 2019, there are as many as 54 countries which are categorised as 'authoritarian regimes' across the world.

In contrast to dictatorship, democracy as a representative government endows power to the ruled. Democratic institutions like (i) elected legislature, (ii) independent judiciary and (iii) respect for law, individual rights and freedom, encourage enterprise and innovation. An economy will be able to reap all potential gains from investment, and from long term transactions, only if it has a government that is believed to be both strong enough to last (i.e. stable) and inhibited from violating individual rights. Thus, the conditions needed to have individual rights for maximum economic development are exactly the same conditions as are needed to have a lasting or stable democracy. There is a criticism in some quarters that democracy generates redistributive demands that undermine investment priority and affect growth. However, this criticism does carry much validity since growth rates in many democratic countries (including India) are much higher than many authoritarian countries. As Amartya Sen (1999) points out, democracy matters for governing large complex societies such as India for two reasons: (i) democracy protects and manages pluralism (creating political underpinnings of recognition in heterogeneous and diverse societies) which, in turn, nurtures diverse enterprise and (ii) democracy favours demand for better living standards which promotes a fair distribution of 'gains of growth'.

In light of the above, there is a growing mobilisation in more and more countries for democracy. With it, there has been an increasing emphasis on governance to overcome the 'deficits of democracy'. Let us, therefore, turn to analyse the term 'governance' in some detail.

14.2.3 Governance

The term 'governance' is differentiated from government. The emergence of the term 'governance' can be traced to a disaffection with the state dominated models of economic development that were prevalent in the 1950s through 1970s. The term 'governance' subsumes institutions of state and beyond. In this context, the term 'new institutional approach' lays particular emphasis on 'non-state institutions'. The term 'governance' is defined in various ways by different organisations. Two comprehensive definitions, one by the World Bank and the other by the United Nations Development Programme (UNDP) are presented here.

World Bank (1994): The WB defines 'governance' as the manner in which power is exercised in the management of a country's economic and social resources. There are three distinct aspects of governance: (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country's economic and social resources for development; and (iii) the capacity of government to design, formulate, and implement policies and discharge functions.

UNDP (1997): The UNDP defines 'governance' as the exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences.

These definitions, particularly the one by UNDP, are the ones that dominate the debates and analysis of governance. As such, it is clear that governance refers to a much wider ambit than government. First, these definitions capture various units of governance that are not mere instruments of the state or government. Second, they show that governance is embedded-in and interwoven-with state and civil society interactions. Hence, governance is that part of the public realm which encompasses both the government and the civil society. Third, both the definitions include political dimensions with an implicit reference to 'democratic accountability'. In other words, it deals not only with how power is exercised but also how power is acquired. These definitions are thus in contrast with apolitical definition of Fukuyama (2013) for whom governance is rather about 'a government's ability to make and enforce rules, and deliver services, regardless of whether that government is democratic or not'.

14.2.4 Good Governance

Good governance has an aspirational dimension. It reflects a limited scope compared to the comprehensive definitions referred above. Good governance, among other things, is 'participatory, transparent and accountable'. It is therefore effective and equitable in promoting the 'rule of law'. Good governance ensures 'political, social and economic priorities' based on a broad consensus in society in which the voices of the poorest and the most vulnerable are also heard in decision-making over allocation of development resources. According to the World Bank, policy makers, civil society groups, aid donors and scholars around the world increasingly agree that good governance matters for development. This growing consensus has emerged from a proliferation of empirical measures of institutional quality, investment climate and the accompanying research showing the strong impact of good governance on development.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) Distinguish between Government and Governance.

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2) In terms of the overall 'democracy index', what is the relative position of India with reference to its neighbouring countries?

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3) State the criticism against democracy. Do you think that the criticism is merited?

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4) Bring out the essential constituents of the term 'governance'.

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5) In what way 'good governance' is different from 'governance'?

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14.3 CONSTITUENTS OF GOVERNANCE

Within the analysis of the role of governance, there is a reference to two important constituents of governance viz. 'economic governance' and 'institutions for governance'. These two are important for the larger governance analysis. They can be, therefore, considered as sub-sets of governance as follows.

14.3.1 Economic Governance

'Economic governance' relates to the functioning of markets and economic activity. It refers to the structure and functioning of legal and social institutions to support economic activities and transactions. Avinash Dixit (2009) uses the term 'good governance' in the context of the economy to point out that 'good governance' is needed to secure three essential pre-requisites for a well functioning market economy. First, security of property rights, without which individuals will lack the incentives to save and invest. Second, enforcement of contracts which are necessary to assure that the gains accruing from economic transactions reaches all participants. Without guarantee of enforcement, people would fear to enter into contracts and transactions would not take place. Third, collective action is needed to provide adequate provision of public goods through which much of private economic activity takes place. Equally important is control of 'public bads' like crime and violence which adversely affect incentives for private economic activity.

14.3.2 Institutions for Governance

The emergence of 'new institutional economics' (vide the 'new institutional approach' referred to in 14.2.3 above) is as much in the context of 'state-failure' as of 'market failure'. It is argued that differences in growth and development of countries is not merely because of resource differences (i.e. differences in physical capital, human capital and technology) which are but only proximate causes. This is to say that 'Institutions' are the fundamental cause for differences in economic growth and development. According to a leading light of the New Institutional School [viz. D. North (1990)], 'Institutions are the rules of the game in a society'. In other words, they are the humanly designed constraints to shape human interactions. From this view point, there are three important features of institutions viz. (i) 'humanly devised' (in contrast with others like geographic factors outside human control), (ii) 'rules of the game' (which set constraints on human behaviour) and (iii) their major effect through incentives.

The emphasis of the new institutional school is on 'free markets' and 'protection of private property rights'. Both these are identified as essential requirements for economic development. Critics point out that belief in free markets, with limited role of state, is a major limitation of the institutional approach. They argue that the new institutional approach suffers from a poor understanding of changes in the institutions themselves. This raises the issue of the link between the 'New Institutional approach' and the 'emphasis on governance'. The implicit relation is to be seen in terms of the role of non-state institutions in the development process and in the emphasis on protection of property rights. Analysis of governance issues is therefore much broader encompassing not only property rights and freedom of enterprise but also the implicit normative political bias for democracy. In other words, 'institutions for governance' encompass much larger dimensions.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What does the term 'economic governance' relate to?

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2) According to Dixit (2009), what are the three essential things needed to ensure 'good governance'?

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3) What is meant by the term 'institutions for governance'.

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14.4 GOVERNANCE INDICATORS

Broadly, there are two types of measures of governance. One is a set of 'objective measures' and the other 'subjective measures'. The objective indicators of governance measure mainly the state of a political institution (democracy, dictatorship), the type of institutional regime, the occurrence of political instability and violence, and the existence of executive constraints (checks and balances). Data sources for these measures are the POLITY database and the 'Democracy Index' by The Economist Intelligence Unit. The major drawback of these objective measures are that they provide a narrow perspective of governance without providing information on the quality of institutions critical for assessing governance.

There is an alternative to the above objective measures by way of subjective measures of governance which are based on expert opinions and perception surveys. It draws on the database of the 'Worldwide Governance Indicators' (WGI) jointly maintained by the Brookings Institution and the World Bank. The WGI approaches governance from the dimension of 'traditions and institutions by which authority in a country is exercised'. Thus defined, governance includes three major dimensions viz. (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them. The database of WGI provides some composite indicators of governance. These relate to: (i) voice and accountability (VA), (ii) political stability and absence of violence/terrorism (PV), (iii) government effectiveness (GE), (iv) regulatory quality (RQ) and (v) control of corruption (CC). The subsequent part of this section analyses the performance of India in terms of each of these five 'Governance Indicators' (Table 14.2), in a comparative perspective, using the latest scores (or ranks) for the year 2019 based on the WGI database. The WGI data used here is in the form of percentile i.e. with 0 to 100 range: zero indicating the worst and 100 the best.

Voice and Accountability (VA) indicates the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and a free media. India with the provision of freedom of speech as a fundamental right in its Constitution, maintains a relatively high profile in this respect (60.1) compared to its neighbouring countries. Yet, it is nowhere near the top scorers like Norway (100), Denmark (98) or Sweden (97.5). The indicator on 'political stability and absence of violence/terrorism' captures the perception on the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. The score of India on this front (14.8) puts the region in a very poor light of stability not only in comparison with high scoring countries like Norway (90.5) or Sweden (80.5) but even compared to Nepal (23.2) and Sri Lanka (40.5). The indicator on 'government effectiveness' captures perceptions of the quality of public services, the quality of civil service and the degree of its independence from political pressures. It also reflects the quality of policy formulation and implementation and the credibility of the government's commitment to such policies. Of the five governance indicators analysed here,

International Comparisons

India’s highest score (63.9) is in the case of ‘government effectiveness’. China has a slightly better standing in this regard (69.7). Other South Asian neighbours have a much lower ranking in this regard. But the exemplars again are the Scandinavian countries with a score of more than 96 (led by Finland with 99).

Table 14.2: Comparative Profile of Select Economies by Governance Indicators

Governance Indicator	India	Bangladesh	Nepal	Pakistan	Sri Lanka	China
VA	60.1	27.6	39.4	25.6	46.8	8.9
PV	14.8	13.8	23.2	3.3	40.5	36.7
GE	63.9	21.6	16.8	26.9	45.2	69.7
RQ	55.3	28.4	33.7	27.9	55.8	48.1
CC (WGI) CPI (TI)	49.5 41 (80)	16.8 26 (146)	27.4 34 (113)	23.6 32 (120)	43.3 38 (93)	45.7 41 (80)

Source: WGI except for ‘corruption index’ for which scores/ranking from two sources are indicated.

Note: Figures within parentheses refer to rank of the country (out of 180 countries surveyed) for the CPI by Transparency International (TI).

‘Regulatory Quality’ (RQ) is another important indicator reflecting on the capacity of government. It captures the perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. The indicator shows that most of the developing and lower-middle level countries suffer from a relatively poor regulatory quality. India, China and Sri Lanka with a score in the range of 48-56 are better than Bangladesh, Pakistan and Nepal. The weakness in the regulatory capacity of the state over private sector could act as a source for regulatory capture, corruption and inequality.

As we saw before in Sub-section 14.2.1, both India and Sri Lanka were bracketed as ‘flawed democracies’, while Bangladesh, Nepal and Pakistan ended up still lower as ‘hybrid regimes’. Here we see that similar rankings are there for these countries for the indicator on ‘rule of law’. This is reflective of the close association between the two dimensions of government and governance. China’s rule of law situation seems relatively better than its depiction as an authoritarian regime.

Control of Corruption (CC): CC is another governance indicator closely related to regulatory quality. Of late, across the globe (regardless of whether a country is developed or underdeveloped, whether a democracy or authoritarian) two issues that have been the cause of widespread discontentment and protests are corruption and inequality. Corruption is a much severe governance flaw as it could accentuate inequality. Besides, corruption seriously undermines development by increasing the ‘cost of doing business’. It discourages investment and reduces economic growth leading to higher inequality and political instability. Corruption has a disproportionate impact on the poor and the most vulnerable by distorting prices. It increases costs and reduces access to public services like health and education. Corruption erodes trust in government and undermines social contract. Corruption comes in different forms. For instance, corruption could unfairly determine the winners of government contracts, with awards favouring friends or relatives of government officials. Or, it may lead to regulatory capture with far reaching effect on the policy formulation and implementation with adverse consequences on overall economic development. Therefore, tackling all forms of corruption is critical for achieving progress and sustainable change.

Given the importance of controlling corruption due to the factors mentioned above, there have been several agencies, besides WGI, which measures the extent of corruption in countries. Here, we present indicators published by two sources viz. the WGI and the 'Corruption Perceptions Index' by the Transparency International (TI). The survey by the latter (TI) covers 180 countries which is larger than that covered by the CC of WB/Brookings. Corruption Control (CC) indicator of WGI captures perceptions on the extent to which public power is exercised for private gain (including both petty and grand forms of corruption) as well as 'capture of the state' by elites and private interests. As in the case of other WGI indicators, even in the 'Control of Corruption', the standing of India and Sri Lanka is poor but better than that of other neighbours like Bangladesh, Nepal and Pakistan. China, except in 'voice and accountability', sails with India and Sri Lanka in all indicators including CC. Finland with a score of 100 is marked for 'zero corruption'!

The Corruption Perceptions Index (CPI) of the Transparency International (TI) aggregates data from a number of different sources that provide perceptions by business persons and country experts on the level of corruption in the public sector. The CPI 2019 uses 13 different data sources from 12 different institutions to capture the perceptions on corruption (with a reference period of past two years). The data are standardised for a score in the scale of 0 to 100 (the higher the score lesser the corruption). The TI data too confirms the relative corruption position of India and its neighbours though with a relatively lower score (i.e. 49.5 in case of WGI and 41 in case of TI). While India is relatively better in voice and accountability and rule of law, China out-performs India in 'government effectiveness' and 'political stability'. But they are precisely at the same level on corruption index (with a score of exact 80 for both as per the TI).

Critics point out to certain limitations of WGI database. First, it uses several different databases to derive the indicators of WGI. These perception surveys differ in their samples. Moreover, as over a period of time, the sources and methods change, inter-country comparisons over a period is difficult. However, WGI source is transparent in pointing out their methodology (like the 'latent variable' approach used to make corrections to the data). Second, it is pointed out that there is a difference between perceptions of a phenomenon and its actual measurement. This is to say that perceptions differ with the position of those in the sample though appropriate adjustments are made depending on experience from earlier surveys. A third point of criticism is that since there is no universal definition of 'governance' it cannot be measured directly. But it is a common practice to use proxy variables when measuring a phenomena which cannot be observed directly. Hence, methodologically, WGI, despite these criticisms, has retained its significance.

Check Your Progress 3 [answer within the space given in about 50-100 words]

1) What are the major factors to which the indices provided by the WGI database relates?

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2) In which respect India scores better than its neighbouring countries? What does it indicate?

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3) What does the governance indicator of 'government effectiveness' (GE) suggests and how does India and China compare on this front?

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4) State the two agencies which measure corruption as a factor of governance indicator.

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5) What are the criticisms made against the WGI database?

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14.5 LET US SUM UP

Governments are classified into three types of which the democratic form is widely acknowledged to be pro-development. Nevertheless, although more and more countries are becoming democratic, still, not only there are many countries under authoritarian regime, but many democratic countries (including India) are categorised as 'flawed democracy' - a term signifying deficiencies on several front. The term 'governance' encompasses multiple dimensions like form of political regime, process by which authority is exercised, capacity to design and implement policies, etc. The term 'governance' signifies the harmonious coexistence of both government and civil society for 'democratic accountability'. The term 'governance' is distinguished from the term 'good governance' which ensures a 'consensus based decision making' in which the voices of the poorest and most vulnerable are also duly taken into account. In view of the strong linkages of good governance with the development indicators, many 'governance indicators' have been developed in recent years. Based on this, countries are ranked. In particular, in respect of the 'corruption perception index' (CPI), India and China are at equal level though India fares better in comparison to China in respect of the 'voice and accountability index'.

14.6 SOME USEFUL BOOKS AND REFERENCES FOR FURTHER READING

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14. 7 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Government is an authority in a country to exercise legitimate power. Governance refers to a notion of democratic state in which the 'state' is a facilitator of markets to function efficiently.

2) India, though is also yet a flawed democracy, fares better than its 5 neighbours (rank within brackets) as follows: India (51), Sri Lanka (69), Bangla Desh (80), Nepal (92), Pakistan (108) and China (153).

3) A criticism against democracy is on the ground that it 'generates redistributive demands that undermines investment priority and affect growth'. The criticism is not merited because 'growth rates in many democratic countries (including India) are much higher than many authoritarian countries'.

4) 'Governance' refers to a notion of democratic state. The term subsumes institutions of state and beyond. The latter includes non-state institutions like the civil society. Governance, thus, refers to a much wider ambit than a government. There is an implicit reference to 'democratic accountability' in the term governance.

5) Good governance is 'participatory, transparent and accountable'. It takes into account the voices of the poorest and the most vulnerable including under it the principles of 'inclusive growth'.

Check Your Progress 2

1) It refers to the structure and functioning of legal and social institutions to support economic activities and transactions.

2) Security of property rights, institutions to ensure the enforcement of contracts and collective action for the effective provision of public goods.

3) It is much broader than mere 'property rights' and 'freedom of enterprise'. It includes a political bias for democracy.

Check Your Progress 3

1) It relates to: (i) voice and accountability (VA), (ii) political stability and absence of violence/terrorism (PV), (iii) government effectiveness (GE), (iv) regulatory quality (RQ) and (v) control of corruption (CC).

2) Voice and Accountability. It indicates the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association and a free media.

3) It captures perception on quality of public services and its independence from political pressures. It also captures the credibility of the government in its commitment to policy formulation and implementation. China scores marginally higher (69.7) than India (63.9) in this respect.

4) CC of WGI (by Brookings and WB) and CPI by Transparency International.

5) It uses different databases, the surveys differ in their sample characteristics making inter-country comparison difficult, etc.

GLOSSARY

Agglomeration Effect	It means cluster of population and economic activities. In economics, agglomeration means the phenomenon of locating firms close to one another. At its core, agglomeration's underlying theory is that businesses and resources can take advantage of a number of efficiencies by being located close to one another. There are actually two major categories of agglomeration: urbanisation economies and localisation economies. Urbanisation economics means benefits that firms in a number of different industries receive from population and infrastructure clusters. A great example of this is a shopping mall. Localisation economics means firms in the same industry get benefits from being located close to each other.
Balance of Payments	It summarises all transactions of country's individuals and government with rest of the world. These transactions consist of imports and exports of goods, services and capital, as well as transfer payments such as foreign aid and remittances.
Body Mass Index (BMI)	It is a measure of body fat adjusted for the height of the individuals. It is measured as the body weight in kg divided by height in metres squared. Thus, if height is 175 cm and weight is 70 kg, then BMI = 70/(1.75*1.75)= 22.86 (since 1 metre is = 100 cms, 175 cms = 1.75 meters).
Centripetal/Centrifugal Effects	These are the concepts from Newtonian mechanics. Centrifugal effect means the inertial force directed away from the rotation that affects all objects at the time of rotation. In economics, we can say that Centrifugal force pulls population apart and on the other hand, Centripetal effect pulls population together.
CDS (Current Daily Status) Unemployment	This approach measures unemployment in terms of 'person days' during the reference week.
CWS (Current Weekly Status) Unemployment	A person is treated as unemployed by this method, if a person who is available for work, does not find work even for one hour during the reference week.

Current Account Deficit	It is a measurement of a country's trade where the value of goods and services imported exceeds the value of goods and services it exports. The current account includes net income (e.g. interest and dividends) and transfers (e.g. foreign aid) although these components account for only a small percentage of the total current account.
Debt-GDP Ratio	This is the ratio between a country's government debt (a cumulative amount) and its GDP. A low debt-to-GDP ratio indicates that an economy can produce and sells goods and services sufficient to pay back its debts without incurring further debt.
Demographic Transition	It is the process by which countries transit from a situation of high birth and death rates to one of low rates in both birth and death.
Democracy Index	An Index developed and published by The Economist's Intelligence Unit. It surveys more than 165 countries and bases its democracy index on five categories viz. electoral process and pluralism, the functioning of the government, political participation, political culture and civil liberties.
Density of Population	Refers to the number of people per square km of land area.
Desertification	It is a process by which fertile land becomes desert, as a result of drought, deforestation, inappropriate agriculture, etc.
Dictatorship	Refers to an authoritarian regime in which the concentration of power lies in a few hands.
Disguised Unemployment	Also referred to as hidden unemployment, it exists when the labour force is either left without work or is working in such a manner where its marginal productivity is zero.
Economic Planning	Economic planning is the process by which central governments makes key economic decisions. It is in contrast with the laissez-faire which eschews any attempt to guide the economy, relying instead on

	market forces to determine the speed, direction and nature of economic evolution.
Foreign Direct Investment	Foreign direct investment (FDI) is an investment made by an investor from another country in tangible capital assets like infrastructure, production unit, etc.
GFR	Refers to the number of births per year per thousand women of child bearing age.
Governance	Governance encompass the legal frameworks for the rule of law, accountability of public officials, transparency in government procedures and practices, freedom for information access and participation of citizens through civil society organisations.
Governance	The term subsumes institutions of state and beyond. In the latter, it includes many non-state institutions.
Good Governance	Refers to that form of governance which ensures 'political, social and economic priorities' based on a broad consensus in society in which the voice of poor and the vulnerable is also included.
Governance Indicators	Are indicators like 'World Wide Governance Indicators' (WGI: developed by Brookings and WB) and the 'Corruption Perception Index' (developed by Transparency International).
Growth Rate	Measures how fast a variable is increasing. When it is economic growth rate, it refers to how an economy is growing. It does this by comparing one quarter of the country's GDP to the previous quarter. Averaged over the four quarters, it gives us the annual growth rate.
GER	Reveals the general level of participation in education.
GPI (Gender Parity Index)	Refers to the ratio of GER for females to males.
Head Count Ratio (HCR)	A method of measuring poverty in which the total number persons below the poverty line income would be divided by the total number surveyed or in the population.

Human Capital	Treating education as an investment in human beings, it refers to the cumulative wealth of trained persons in the society.
Human Development	Refers to the process of enlarging people's freedoms and opportunities thereby improving their overall well-being.
Inclusive Growth	Inclusive growth is economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, in a fair manner across all sections of the society.
Incremental Capital output Ratio (ICOR)	ICOR indicates additional unit of capital (or investment) required to produce an additional unit of output. From Harrodian equation we can say that *Incremental Capital-Output Ratio* (*ICOR*), is the *ratio* of investment to growth. The higher the *ICOR*, the lower is the productivity of *capital.*
Junk-Grade Debt	Long-term credit ratings, denoted as triple A (AAA) is the highest credit quality. C or D (depending on the agency issuing the rating) is the lowest or junk quality. In case of downgrade in credit rating, the government has to pay more in debt servicing costs. This means that it will have less to spend on social initiatives and infrastructure. In order to plug the funding gap, government will have to increase revenue through higher taxes.
Learning Poverty	Refers to the ability to read and understand a short age-appropriate text by age 10. This is an indicator developed by WB to assess the quality of education.
Mixed Economy	This is defined as an economic system consisting of a mixture of both the public and private sector enterprises operating in a mutually coexisting manner. In most cases, 'mixed economy' refers to market economies with strong regulatory oversight and governmental presence in provisioning the public goods and expanding the infrastructural base of the economy to facilitate efficient functioning of markets.

Natural Resource	Natural resources are materials provided by nature which mankind uses to make complex products.
Per Capita Income	Per capita income is a share of national income, on an average that each person is getting. It can be calculated by dividing national income by the total population.
Physical Infrastructure	Physical Infrastructure is directly related with the production sectors like agriculture, industry and trade. It includes facilities like power, irrigation, transport telecommunication.
Poverty Line	A minimum level of income required to purchase the basic necessities expressed on per capita basis below which any person would be deemed poor i.e. below poverty line person.
Poverty Gap Index (PGI)	This is a measure of severity of poverty in which persons whose income is above the poverty is numerically considered 'zero' (i.e. above poverty line) and persons with income below the poverty line would be numerically considered equal to the difference between the actual income and the notional equivalent of poverty line level income.
Rate of Growth of Population	Refers to the change in the size of population expressed as a percentage to its base year population value.
Resource	A resource is a source of supply from which beneficial goods and services can be produced.
Social Progress Index	Is a measure developed to assess the capacity of a society to meet its basic human needs. It encompasses two other aspects besides human needs viz. foundations of well being and opportunities.
Structural Change	Refers to changing dominance of industry-GDP and services-GDP with a transition from a high agriculture-GDP shares.
Special Drawing Rights	An instrument created to replace gold. SDRs are used as a unit of account by the IMF. They are 'potential claims' on the

	freely usable currencies of IMF members.
Squared Poverty Gap Index (SPGI)	The PGI assigns equal weight to each person below the poverty line. This makes the PGI insensitive to the degree of poverty. The SPGI removes this deficiency by assigning weights equal to the actual extent of poverty which ensures greater weight to those whose poverty status is acute relative to others.
Stable Population	A Population is called stable when its size grows/diminishes over time at a constant rate and each age group has a constant share of total population.
Structural Change	This is defined as the outcome of economic growth in which major change in the shares of different sectors of income or employment is evidenced. For instance, the decline in the share of agricultural employment by over 20 percent during the period 1951-2012 is a structural change in the Indian economy.
Still Birth Rate	Still birth refers to the death of an infant in the womb after 28 weeks of pregnancy. It is measured as 'the number of still births per 1000 births (including live and still births) during the year'.
Sustainable Development	*Sustainable development* is a way for people to use resources without the resources running out for successive generations. The term used by the Brundtland Commission defined it as development with sustainability that 'meets the needs of the present without compromising the ability of future generations to meet their own needs'.
TFR	It is the summation of age specific fertility rates (ASFR) which is the 'ratio of number of live births per woman to the mid-year female population of a particular age-group.
TFR	TFR is the average number of children that would be born in the reproductive age of a girl/woman if she were to survive her entire reproductive life. The value of TFR is taken as 2.1 because it is the average number of children a woman would potentially have if she was subject to the

	prevailing fertility rates.
Terms of Trade	Refers to the relationship between exports and imports. It is the relative price of a country's exports to imports.
Under Employment	Is a situation when a part of labour force is willing to work but not getting work as per their skill, education and capacity.
UPS (Usual Principal Status) Unemployment	As per this concept, a person is considered unemployed if he is available for work but could not get work for major part of the year.
UPSS (Usual Principal and Subsidiary Status) Unemployment	Besides the UPS as defined above, this category of unemployed includes those who could not even get work on a 'subsidiary basis' during a year.
Urbanisation	Urbanisation is a process that influences the rural-urban distribution of population in a country. It increases by: (i) natural increase of urban population; (ii) migration from rural areas; and (iii) transformation of rural areas into urban through upgrading of places into new towns, establishment of new industrial townships and growth of urban agglomerations.
Waves of Democracy	Refers to shift of power from monarchy to representative governments through a long history marked for: the Glorious Revolution of England in 1688, the French Revolution in 1789 and the disintegration of USSR in the late 1980s.
Z-Score	Z score is the 'ratio' of the 'difference between the actual value (or the observed value) and the median value' and the 'standard deviation' of the values in the sample. Since the numerator of the ratio is a difference between the actual and the median value for a population, some Z scores are positive and some are negative. It is positive when the actual value is greater than the median value. This is an indicator of good health. The opposite is the case when the Z score is negative i.e. when the actual value is less than the median, the negative value of Z is an indicator of poor health.

STATISTICAL APPENDIX

Table 3.2 (a): Sectoral Share (%) of GDP: 2013-21 (base 2011-12)

Year	Agriculture	Industry	Services
2013-14	20.7	28.3	51.1
2016-17	18.3	28.4	53.3
2019-20 (PE)	17.3	27.5	55.2
2020-21 (AE)	18.8	26.9	54.3

Source: Table 1.3 B, A7, Economic Survey 2020-21.

Note: PE: Provisional Estimates. AE: Advanced Estimates

Table 3.3: Domestic Savings as Percentage of GDP: 2012-19 (2011-12 Series)

Sector	2011-12	2014-15	2017-18	2018-19
Household	23.6	19.6	19.2	18.2
Private Corporate	9.5	11.7	11.6	10.4
Public Sector	1.5	1.0	1.7	1.5
Total	34.6	32.2	30.5	30.1

Source: Table 1.9, A 26, Vol. 2, Economic Survey 2020-21.

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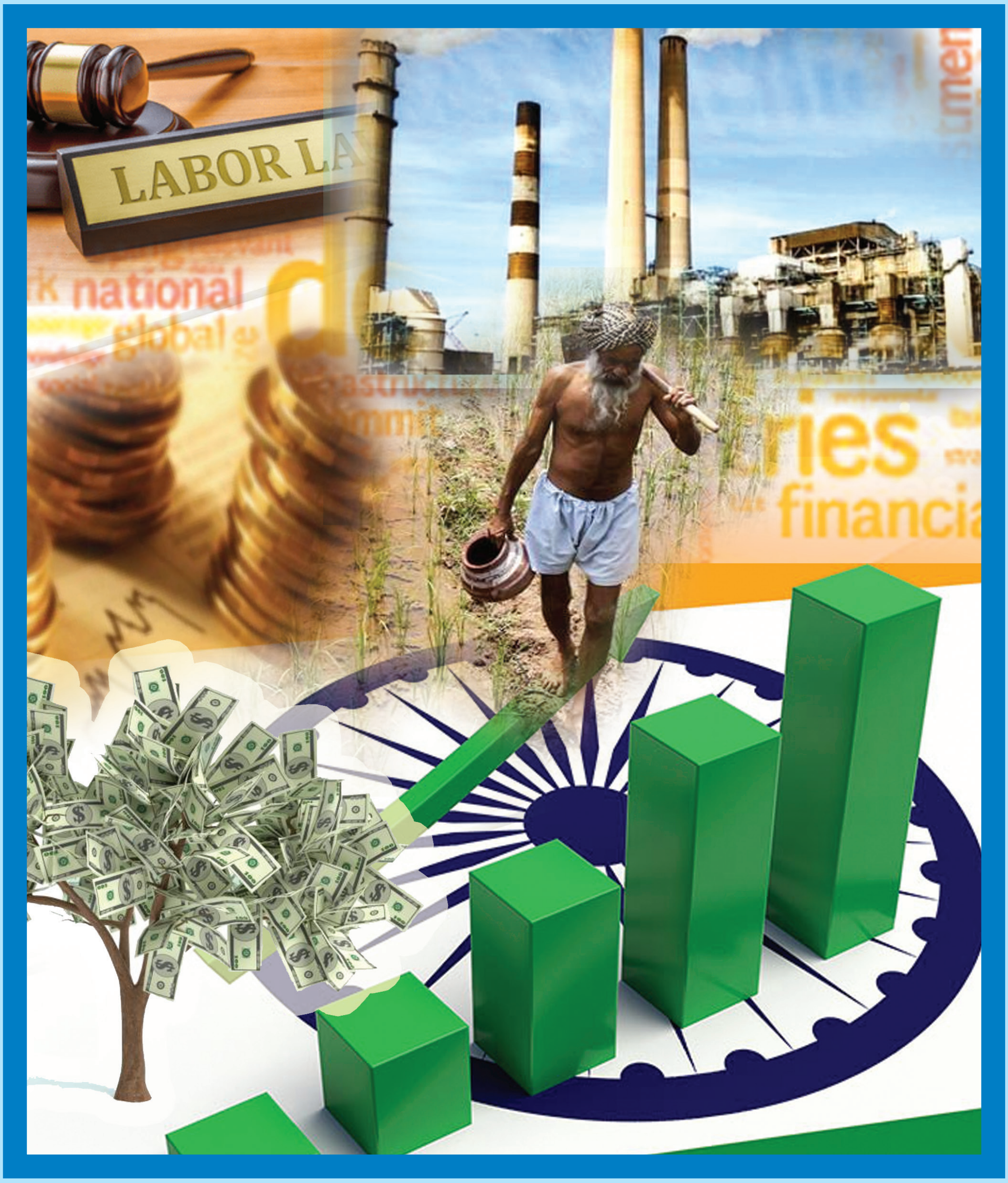
Indira Gandhi National Open University
School of Social Sciences,

BECE-146

Indian Economy II



BECE 146

INDIAN ECONOMY - II

School of Social Sciences
Indira Gandhi National Open University

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Contents

COURSE INTRODUCTION

The present course (Indian Economy II) is a sequel to the earlier course on Indian Economy I you studied in your previous semester. This course deals with two major policy areas viz. (i) the macroeconomic policies and (ii) the sectoral growth and development process in the economy. The course is distributed over four blocks/themes and has 12 units.

The first block (Block 1) is on ‘Macroeconomic Policies’. You may be aware that ‘monetary policy’ and ‘fiscal policy’ are the two important policy options with the government for effecting the sectoral growth process in the desired manner. The two policies need due calibration. This means that they should be employed in a mutually complementary manner. It also requires to be in sync with the required policy atmosphere for facilitating the ‘trade and investment’ needs as also take care of the ‘labour market’ concerns. In view of this, Block 1 focuses on four important areas viz. (i) Monetary Policy (Unit 1), (ii) Fiscal Policy (Unit 2), Trade and Investment Policy (Unit 3) and (iv) Labour Laws and Regulations (Unit 4).

The agricultural sector in the Indian economy continues to cater to a significantly large proportion of its labour force (42% in 2019). With comparatively low productivity levels, the sector demands significant capital infusion for its modernisation. The sector requires major reforms in its market linkages and agricultural policies. Keeping these factors in view, Block 2 on ‘Agricultural Sector’ focuses on four important dimensions of Indian agriculture viz. (i) Performance of Agricultural Sector (Unit 5), (ii) Agrarian Relations and Market Linkages (Unit 6), (iii) Capital Formation and Productivity (Unit 7) and (iv) Agricultural Policy (Unit 8). The expected absorption of excess low productivity agricultural workers in the relatively higher non-farm industrial sector has been slow in India. With this concern in view, Block 3 of the courses deals with the ‘Industrial Sector’. It focuses on two major areas viz. (i) Industrial Growth and Policy (Unit 9) and ‘Small Scale Industries’ (Unit 10). Block 4 of the course is on the ‘Services Sector’ of Indian Economy. In terms of its GDP share, the service sector in India has overtaken the industrial sector but its employment absorption needs policy focus. Keeping this in view, this block focuses on two areas viz. Features of Services Sector (Unit 11) and Policy Issues for Services Sector (Unit 12).

As pointed out in the Course Introduction of Indian Economy I, our endeavour is to keep the content of the course centred around ‘concepts and methods’. This is with a view to making the contents, as far as possible, ‘time invariant’. Statistical data, wherever presented, are meant to give you an exposure to the ‘computational aspects of sectoral development indicators’. For instance, to compute a measure of agricultural or industrial productivity, the basic data you need is on ‘input’ and ‘output’. Likewise, for assessing the contribution of sectors to the GDP, we need sectoral data on income. Calculation of productivity indicators is sensitive to the periods for which they are computed. In other words, with more recent data becoming available, they need to be computed afresh. Keeping these factors in view, the course gives exposure to the various ‘data sources’. Once again, the report of the annual Economic Survey is an important single data source on the sectoral dimensions of Indian economy. Being an annual publication, and uploaded online just before the presentation of the ‘union budget’, it presents data on sectoral performance. With the invariable time lag in the collection and compilation of data by different departments and agencies, in any report of Economic Survey, you would find data on many aspects pertaining to a much earlier time point. Students are advised to make use of this important data source and attempt fresh computations from time to time. This will help them to remain abreast with the latest trends in the 'sectoral growth profiles' of the Indian economy.

BLOCK 1
MACROECONOMIC POLICIES

BLOCK 1 MACROECONOMIC POLICIES

Block 1 of this course is on 'Macroeconomic Policies'. It deals with four broad areas viz. Monetary Policy, Fiscal Policy, Trade and Investment Policy and Labour Laws and Regulations.

Unit 1 is on '**Monetary Policy**'. It begins with a discussion on the 'sources of money supply'. Different instruments of monetary policy like reserve ratio, bank rate and 'repo and reverse repo rates' are explained in the unit. The broad objectives of Monetary Policy in terms of: (i) price stability, (ii) exchange rate stability, (iii) economic growth and (iv) employment generation with export promotion (in a manner as to take care of the concerns of equity) are explained. Recent changes in the Monetary Policy Mechanism in India is outlined.

Unit 2 is on '**Fiscal Policy**'. It begins with an outline of the broad 'types of fiscal policy' along with its implications. A brief review of fiscal policy in India, with a thrust on the policies pursued since the 1990s, is then made. Different instruments of fiscal policy like (i) taxation, (ii) expenditure and (iii) debt are explained. The concept of 'fiscal deficit' is also discussed.

Unit 3 is on '**Trade and Investment Policy**'. The unit discusses the broad objectives of trade policy. This is done in terms of two basic approaches viz. 'import substitution industrialisation (ISI)' and 'export led growth (ELG)'. The concepts of 'convertibility' and 'deficits of accounts' is explained. Distinction between the FDI policy and the FII policy is outlined. Significance of 'regionalism' in terms of 'bilateralism' and 'multilateralism' is discussed.

Unit 4 is on '**Labour Laws and Regulations**'. The unit begins with an outline of the 'labour policies in India prior to independence'. The various labour laws for the organised sector workers and those for the unorganized sector workers are separately explained. Recent 'labour reform measures' are discussed.

UNIT 1 MONETARY POLICY*

Structure

1.0 OBJECTIVES

After reading this unit, you will be able to:

- state the broad macroeconomic objectives of monetary policy;
- describe the concepts behind the sources of money supply;
- verify/show that aggregate bank deposits are directly proportional to ‘reserve money’ and inversely proportional to the sum of ‘CRR and liquid cash’ in the economy;
- explain the instruments of monetary policy;
- discuss the specific objectives of monetary policy;
- outline the process of ‘monetary transmission mechanism’ with its consequent impacts on GDP and employment levels; and

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* Dr. Rajeev Kumar, Assistant Professor, SRCC, Delhi University.

- delineate the changes in the monetary policy mechanism of India after the 1990s.

1.1 INTRODUCTION

Monetary policy seeks to achieve multiple objectives like economic stability, growth and equity. Monetary policy encompasses the overall monetary management in an economy. The responsibility of monetary policy is performed by the central bank of a country which in the case of India is the Reserve Bank of India (RBI). The RBI regulates money supply in the economy (through the banking system) striving to achieve three basic macroeconomic objectives viz. (i) ensure the money supply required for the economic expansion, (ii) increase output and stabilise prices and (iii) maintain the rupee value from excessive appreciation or depreciation of the same (i.e. exchange rate stability). By performing these objective, it helps in raising the level of aggregate demand through the optimum levels of consumption and investment which, taken together, enhances economic growth.

This unit first recapitulates some important theoretical concepts on money supply and then proceeds to discuss the major policy instruments used to regulate the same. The mechanism of monetary policy has evolved itself over time with some major changes having taken place in it in the post-1991 years. The unit delineates some of these changes.

1.2 SOURCES OF MONEY SUPPLY

In a modern economy, money supply can be broadly considered in its two forms viz. cash money and credit money. Central banks usually classify '*aggregate money supply*' on the basis of the '*liquidity*' of different monetary assets. Liquidity means how quickly an asset can be converted into cash money. Thus, currency in hand is the most liquid by which we can readily exchange goods and services. From this standpoint, based on their descending order of liquidity, supply of money can be categorised into the following four categories viz. M_1, M_2, M_3 and M_4 (i.e. M_1 is the most liquid form of money while M_4 is relatively the least liquid).

$$M_1 = C + DD + OD \qquad (1.1)$$

where C refers to currency (including coins and paper notes) held by public, DD refers to demand deposits with commercial banks and OD refers to 'other deposits' (e.g. deposits with RBI by financial institutions like IDBI, foreign central banks or international financial institutions like IMF, WB, etc.). It is the most liquid and is as per a narrow concept and hence also called as 'narrow money' (in contrast to M_4 which is based on a broader concept and hence called 'broad money'). M_1 is also considered as the 'monetary base' of an economy. In contrast to M_1, M_2 is defined in a relatively broader concept as:

M_2 = M_1 + savings deposits in post offices (1.2)

M_3 and M_4 are based on still broader concepts and are respectively defined as:

M_3 = M_1 + 'net time (fixed) deposits' with commercial banks (1.3)

M_4 = M_3 + savings with post office (excluding 'national savings certificates') (1.4)

1.2.1 Reserve Money

The second most important source of money supply in an economy is the money generated as '*credit money*' by the commercial banks. It is the loans extended by the banks to the public which depends on certain factors like: (i) 'cash reserve ratio' (CRR: discussed in sub-section 1.3.1) and (ii) cash and demand deposits made from time to time by the general public with the banks. The 'scheduled commercial banks' (SCBs) generate 'credit money' in proportion to 'a multiple of the cash deposits' (called '*deposit multiplier*': DM) held by them. CRR and DM are inversely related i.e. higher the CRR, lower will be the value of the deposit multiplier and therefore lesser will be the capacity of the banking system to create credit money and vice versa.

M_1 defined above is also called as '*high powered money*' or 'reserve money'. As said above, it is also referred to as the 'monetary base' of an economy. The RBI can increase the quantity of the high powered money by purchasing securities or government debt instruments. We can show that the supply of 'high powered money' (H) influences the capacity of the banking system in credit creation. For this, let us suppose that the size of the bank deposits is D 'b' is the fraction of the total bank deposits which the public wants to hold in cash and the cash reserve ratio is 'x'. Then, reserves with the RBI (R) = x * D and currency with the banks and the public (C) = b * D. Now, the high powered money, H, is obtained as:

$$H = bD + xD = (b + x) * D \qquad (1.5)$$

$$\text{or } D = \frac{H}{b+x} \qquad (1.6)$$

The size of the total deposits in an economy is thus a multiple of the high powered money which depends upon three factors: (i) quantity of high powered money (H), (ii) cash reserve ratio (x) and (iii) fraction of the total bank deposits (D) which the public wants to hold in cash. In other words, the high powered money 'H' is a fraction of the total deposits (D) in which the multiplying factor is '$b + x$' i.e. H = D * ($b + x$).

1.2.2 Foreign Capital Flows

Apart from the above mentioned channels (M_1 to M_4) of money supply, '*foreign capital flows*' (both inflows and outflows) also affect money supply. The dynamics behind this phenomenon is better understood with the help of the balance sheet of the Reserve Bank of India. In simple words, when foreign capital flows into India, the assets side of the balance sheet of the RBI increases. This results in the '*appreciation*' of rupee. To keep the value of the rupee stabilised, RBI issues more domestic currency. This causes the liability side of the balance sheet to increase. In other words, to prevent excessive or undue appreciation of rupee, RBI converts the foreign capital inflows in rupee terms and inducts equivalent domestic currency of money supply causing the money supply in the economy to increase. Likewise, with an outflow of the foreign capital, the liabilities side of the RBI's balance sheet decreases causing a *depreciation* of rupee. Once again, to stabilise the money supply, RBI exchanges rupee for dollars (causing the money supply in the economy to decrease) to balance the assets with liabilities. The mechanism of foreign capital inflows, thus, virtually forces RBI to infuse domestic currency into the market. The foreign investors need rupees to invest in India. The foreign currency brought in by those investors (and deposited with the RBI) gets them equivalent amount of Indian rupees. On the other hand, when a foreign investor liquidates his holdings in India, he first gets payment in rupees. These are then deposited with RBI and exchanged for foreign currency which is allowed to be repatriated. This function of the central bank is called as the role of 'exchange rate stability' on which you will study more in Section 1.4 of this unit.

1.3 MONETARY POLICY INSTRUMENTS

The RBI regulates the entire banking system and the money market in India. For this, it is vested with the authority to exercise certain quantitative and qualitative measures in order to regulate the money supply. Quantitative measures are employed to modulate the credit creating capacity of the banks while the qualitative measures are used to direct the credit flow towards the desired sectors of the economy (called priority lending policy). The Sukhmoy Chakrawarti Committee (1980) added a new dimension to the role of the RBI by stressing that besides its hitherto assumed roles (i.e. striving for achieving price stability, economic growth, equity and social justice), the RBI should also strive for the creation of new monetary and financial institutions for an orderly development of the Indian money market. This thus became the fifth objective of the RBI's monetary macroeconomic role. The roles of RBI has proliferated since the 1990s on which you will study in Section 1.5 of this unit.

RBI controls money supply in the economy through various policy tools. Among other things, these tools principally target the credit creation capacity of the banks. For this, it prepares a monetary policy framework and reviews it periodically. Regulation of money supply is a twofold process viz. (i) regulating cash in circulation and (ii) regulating credit. For the purpose of the former, the RBI issues new currency to meet the growing demand for money keeping in view the growth rate and the inflation rate (both expressed in percentages) in the economy. For the latter, RBI controls supply of credit money through various policy measures like (i) bank rate, (ii) cash reserve ratio (CRR), (iii) statutory liquidity ratio (SLR), (iv) open market operations, etc. Some of the other measures adopted by the RBI are: credit rationing, selective credit control, liquidity adjustment facility and moral suasion. Through a combination of these measures, the RBI regulates the overall money supply in the economy with only the minimum necessary direct intervention to alter the volume of currency in circulation.

1.3.1 Reserve Ratios

The ‘cash reserve ratio’ (CRR) is a major and important tool employed by the RBI to regulate money supply. Under the policy of cash reserve requirement, banks are required to keep a certain fraction of their aggregate deposits in the form of liquid cash with the RBI. CRR requirements are mandatory for all banks like scheduled commercial banks, non scheduled banks, cooperative banks and the regional rural banks. CRR directly affects the lending capacity of the banks in a very effective manner. RBI imposes penal interest rate on banks which fail to comply with the CRR norms. As noted in equation (1.3) above, the value of the deposit multiplier (D) is the inverse of the CRR (x). Thus, if CRR is 20 percent the value of the deposit multiplier is 5.

Like the CRR, another important tool employed by the RBI is the ‘statutory liquidity ratio’ (SLR). SLR is the fraction of the cash in the hands of the banks after meeting the CRR obligations. Thus, while CRR is the primary reserve requirement, SLR is the secondary reserve requirement. SLR requirement can be met by the banks either in the form of cash, gold, government securities or any other approved security. SLR thus not only helps in regulating the banking credit creation but also ensures solvency of the banking system. While there is no provision of imposing monetary penalty for the violation of SLR norms, defaulting banks’ access to RBI’s refinance facility would be restricted.

1.3.2 Bank Rate

Bank rate is that rate at which RBI re-encashes (buy back) the bills of exchange and promissory notes. It is also the rate at which loans and advances are extended to the banks [i.e. SCBs, cooperative banks, state finance corporations (SFCs) and others]. It is thus basically an interest rate at which RBI gives loans and advances to the banks and financial institutions. The interest rate charged is calibrated to control the money supply even though it is basically meant to cover the cost of borrowed funds. When RBI raises the bank rate, banks and financial institutions also increase their lending rates. As a consequence, demand for loans and advances decrease. Thus, money supply in the economy falls through reduced credit money.

1.3.3 Repo and Reverse Repo Rates

Repo rate is that rate at which RBI lends money to the commercial banks for any shortfall in their funds. It is thus a short term lending rate of the RBI.

Repo rate is used as a tool to control inflation in the short run. RBI frequently adjusts the repo rate to control inflation. By increasing the repo rate, RBI increases the cost of lending of the banks. Reverse repo rate (RRR) is the opposite of repo rate. RRR is the rate at which RBI borrows money from the commercial banks to wipe out excess funds in their hands. It is a short term borrowing rate of the RBI. RBI frequently adjusts the RRR to control money supply. By increasing the reverse repo rate, RBI incentivises the commercial banks to part with their excess funds to it. This reduces the money available with the banks thereby restricting its credit potential and consequently reducing the supply of money in the economy.

Besides the above instruments, RBI can control money supply through 'open market operations'. Under this, RBI carries out 'sale and purchase' of government securities. When banks purchase securities from RBI, their cash reserve position decreases. This reduces their ability to create credit. On the other hand, when banks sell securities their cash reserve position increases. Thereby, their capacity to create credit is enhanced. Until recently, open market operations as a policy tool was not used by RBI but was mainly used for management of government debt. Since early 1990s, open market operations are being used more (through repos) for maintaining exchange rate stability. There are also other policy measures such as rationing of credit, margin requirement on loans and moral suasion. For instance, RBI being the lender to other banks, can adopt the policy of 'credit rationing' to reduce money supply. This means it can deny loans to specified category of banks or can put a ceiling (quota) on the loans extendable to the banks. It can also impose an upper limit on the loans to industry by the banks or set a higher margin requirement on the collateralised lending by the banks or can direct banks to keep a higher prescribed margin on the collateral security for granting loans to borrowers. Lastly, RBI can resort to 'moral suasion' to sensitise banks to refrain from excessive lending.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) State the major macroeconomic objectives of monetary policy.

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2) What is meant by 'monetary base' of an economy?

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3) What is 'deposit multiplier' (DM). What is its relationship with CRR?

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4) Does 'high powered money' influence credit creation? How?

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5) When does the RBI resort to applying the 'quantitative measures'? How does this differ from the 'qualitative measures' adopted by the RBI?

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6) When does the RBI resort to applying the 'quantitative measures'? How does this differ from the 'qualitative measures' adopted by the RBI?

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7) For regulating the cash in circulation in the economy, which two factors are kept in view by the RBI?

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8) State the two important ‘reserve ratios’. In what respect are they helpful?

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9) Distinguish between repo and reverse repo rates. How are they useful?

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10) Mention the various other measures which are employed by the RBI to control the money supply in the economy.

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1.4 OBJECTIVES OF MONETARY POLICY

The process through which monetary policy affects the different sectors in the economy is known as ‘monetary transmission mechanism’. It works on the fundamental premise that money is not neutral in its effect on investment demand and GDP. It implies that, under flexible supply conditions (below full employment), expansion in the supply of money always augments economic growth. Therefore, effects of changes in the monetary sector gets transmitted to the ‘real sector’ through rate of interest. In essence, ‘monetary sector’ and the ‘real sector’ are integrated through the ‘interest rate’.

Monetary transmission mechanism works to serve both the expansionary as well as the contractionary objectives of monetary policy. For the former, when demand for the currency increases in the economy the commercial banks approach the RBI with securities. RBI issues new currency in exchange for their securities. This stimulates the supply for loanable funds causing the interest rate to fall. A fall in the nominal interest rate, in turn, leads to an increase in private investment and consumption expenditure both by firms and consumers. This results in a rise of aggregate demand in the economy. Thus, under the assumption of flexible supply conditions and less than full employment, any increase in aggregate demand results in an increase in the GDP. On the other hand, during a contractionary phase, a reduction in the money supply leads to a rise in the nominal interest rate. This in turn decreases the borrowings for investment (and consumption) inducing the people to save more. This causes a fall in the aggregate demand in the economy leading to a lower GDP and reduced employment level (recall the IS-LM analysis).

Thus, the RBI can alter the money supply in the economy by calibrating the 'interest rate'. Changes in the interest rate affect the investment and consumption behaviour of both the firms and the consumers causing either a rise or a fall in the aggregate demand (for goods and services) with the consequent impact on the GDP and employment levels.

1.4.1 Price Stability

One of the important objectives of monetary policy is to promote economic activities while maintaining stability in prices. In an integrated global economy, booms and recession originating in one part of the world easily spread to other parts. For instance, financial meltdown in the US in 2008 quickly spread globally. Hence, one of the added tasks of the monetary policy in the new world order is not only to provide an adequate cushion but also be more adaptive and responsive to external shocks. This requires that the monetary policy mechanism should be capable of coping with the shocks of both the low and high business cycle periods viz. recession and hyper inflation. Recession is a business cycle contraction which slows down economic activities and adversely impact real GDP, employment, industrial production and wholesale and retail sales. It has been observed in the past that an imported recession has minimum impact on Indian economy due to the presence of a large informal sector, large public sector and a domestic demand cushion. An easy monetary policy, supplemented by the expansionary fiscal policy, helps to reduce nominal interest rate, encourage consumption demand and investment demand and discourage savings. This would help in raising the aggregate demand and stabilise prices bringing the economy out of the recession.

Boom is a phase of business cycle expansion in which aggregate demand is persistently pushed up by the market expectations. Effects of boom on the real sector depend upon the level of employment and the responsiveness of the aggregate supply to the demand. A boom in an economy, already at full employment, causes inflation. It impacts more on prices than on GDP and employment due to the weak response of aggregate supply to aggregate demand. A tight monetary policy, supplemented by contractionary fiscal policy, is required to combat the boom in an economy. Tight monetary policy increases nominal interest rate which reduces consumer demand, promotes savings and discourages investment demand. The overall effect works to reduce aggregate demand, stabilise prices and eliminate boom.

1.4.2 Exchange Rate Stability

An important function of the monetary policy is to protect exchange rate from shocks and in the process prevent volatility (i.e. appreciation or depreciation) in domestic currency from speculative actions. This is particularly important in the era of managed floating exchange rate under which a trade-off exists between exchange rate stability and macroeconomic objectives of unemployment and inflation. Hence a balance needs to be maintained. Monetary policy cannot be an effective tool under fixed exchange rate and imperfect capital market conditions restricting the liberalised mobility of capital. It can be better applied under the floating exchange rate system in which response to changes in interest rate would adequately influence the economy for the desired reorientation. However, monetary policy can still be used to minimise exchange rate volatility by balancing the money supply from capital inflows by selling bonds of equal value in the money market. Such a balancing measure (called a sterilisation policy) is aimed at mopping up the additional supply of money caused by foreign capital inflows. Monetary policies are thus useful in reducing the risk of capital flight sparked by the speculations of depreciation of currency.

1.4.3 Economic Growth

By adopting an easy monetary policy, aggregate demand can be increased by reducing nominal interest rate in the economy. This is because, as interest rate falls, both private investment and consumption expenditure increase leading to an increase in the aggregate demand in the economy. Under the assumptions of less than full employment and with induced capital formation, the economy grows faster. In addition, monetary policy can also create new financial institutions which can tap savings in the economy leveraging them in productive sectors to achieve growth.

1.4.4 Export Promotion, Employment Generation and Equity

By devaluing the rupee exchange rate, monetary policy can be used to promote exports and discourage imports. As a consequence, imports become expensive and exports become cheaper helping reduce the current account deficit. By extending cheaper loans to exporters, monetary policy can help boost exports. An easy monetary policy, by raising aggregate demand, can increase employment level through multiplier effect. Further, by adopting the policy of priority lending (which is helping the weaker sections in the society through cheaper and easy loans), the poor and the marginalised can be helped in setting up self employment ventures. Such measures can help reduce inequality in the economy.

1.5 CHANGES IN THE MONETARY POLICY MECHANISM IN INDIA

Monetary policy underwent significant transformations since the mid-1990s and more aggressively during the years 2000-2005. Recent reforms of post-2000s became essential to address the new realities and challenges emerging from global economic integration and greater market orientation. With this, monetary policy stance witnessed a clear shift from direct intervention to indirect intervention. Greater reliance had to be placed on approaches like: (i) open market operations (OMOs), (ii) liquidity adjustment facility (LAF), (iii) market stabilisation scheme (MSS) and (iv) establishment of 'marginal standing facility' (MSF). OMOs was earlier outlined in Section 1.3. In this section, we will briefly note the importance and functioning of the other three.

1.5.1 Liquidity Adjustment Facility (LAF)

Liquidity Adjustment Facility scheme was launched by RBI in the year 2000 and was subsequently revised in the year 2004. LAF is a short term liquidity management technique. Under this, RBI sells and purchases government securities at repo rate and reverse repo rate respectively to absorb or inject money into the economy on short term basis. RBI periodically revises these rates in its monetary policy reviews. It is thus a day to day or emergent lending and borrowing facility for banks to meet their short term liquidity needs. LAF operations, combined with open market operations and bank rate changes, have since become the major technique of monetary policy in India.

1.5.2 Market Stabilisation Scheme (MSS)

RBI launched the 'market stabilisation scheme' in 2004 to withdraw excess liquidity from the money market by selling government bonds. MSS was meant to mop up excess liquidity arising from the RBI's purchase of foreign currency in order to protect the exchange rate in times of excess inflow of foreign capital into the country. Since such inflows can appreciate rupee causing current account deficit to widen, the scheme was meant to act as the market stabiliser. Under this scheme, RBI purchases dollars (or any other currency) so as to neutralise the effect of excess liquidity created in the economy. The objective is achieved by the selling of bonds to absorb the excess liquidity. As mentioned above, this is also referred to as 'sterilisation'.

1.5.3 Marginal Standing Facility (MSF)

Marginal Standing Facility is a new window created by RBI in 2011 [under the Liquidity Adjustment Facility (LAF)] for overnight lending of funds to banks. Banks can borrow overnight funds at MSF rate (from the RBI) against approved government securities. This is thus a kind of emergency lending for banks, made at a rate higher than the repo rate, to counter overnight volatility in the interest rates. Before MSF, inter-bank borrowing was the only way to meet overnight funds requirement. The proliferation of economic activities had over the years caused sharp fluctuations in short term (over night) inter-bank lending rates. Thus, the overall idea behind MSF is to reduce overnight volatility in inter-bank lending rates.

In more recent years (i.e. since 2015), a new Monetary Policy Framework Agreement (MPFA) has shaped the stance of monetary policy in India. As per this, the RBI will focus on ensuring that inflation remains moderate to achieve a CPI (consumer price index) linked inflation target of 6 percent by January 2016 and 4 percent by the end of 2017-18. The target beyond 2017-18 is defined in terms of a tolerance band of +/- 2 percent around 4 percent. Inflation, based on all India CPI was 5.9 percent during 2014-15 and (except for a short stint of slightly above 6 percent in the year 2016) has remained below 6 percent since then. It was at a record low level 1.54 percent in June 2017. Thus, MPFA, since its inception, has succeeded in lowering the CPI inflation rate effectively.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What is the basic premise on which ‘monetary transmission mechanism’ is based?

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2) What are the characteristics of a period of recession? How does monetary policy help cope with this?

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3) Does an economy like India face serious impact from global recession? Advance reasons for your stand.

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4) How is a situation of boom different from recession? What monetary policy stance is helpful to deal with a situation of economic boom?

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5) By meeting out which broader objective of monetary policy, are the situations of both recession and boom managed from the policy front?

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6) What is meant by a 'sterilisation measure' in the context of monetary policy?

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7) In what manner the objective of economic growth achieved by monetary policy?

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8) How can monetary policy be effective in reducing inequality in an economy?

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9) What is the primary objective served by 'liquidity adjustment facility'? Which are the other recent measures introduced into the monetary policy approaches in India?

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10) What is a more recent (post-2015) change in the monetary policy of India? What particular objective has this served?

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1.6 LET US SUM UP

Monetary policy aims at achieving the broad macroeconomic objectives of ensuring adequate money supply to aid an optimum level of economic growth and maintain exchange rate stability. Various measures like reserve ratios, bank rate and repo and reverse repo rates are traditionally employed to meet these objectives. However, in the post-liberalisation phase to meet with the volatility of FDI inflow/outflow, among others, new measures like liquid adjustment facility, market stabilisation scheme and marginal standing facility were introduced. More recently, a mechanism called MPFA (monetary policy framework agreement) was introduced by which the RBI has been successful in keeping the consumer price index linked inflation rate well within the targeted range of 4-6 percent.

1.7 KEY WORDS

Inflation	:	It is a sustained rise in the general price level in an economy over a period of time. Inflation debases the value of money i.e. it reduces the purchasing power of money. It means that same amount of money can now buy a lesser quantity of goods and services in the market than at an earlier point of time.
Price Stability	:	Refers to the absence of sustained fluctuations in the general price level in an economy. In other words, it is the absence of boom and recession.

Real Sector and Monetary Sector	:	Real sector is that part of an economy where we study variables measured in physical quantities (e.g. agricultural/industrial production, GDP, capital stock, etc.). Monetary sector of an economy deals with variables expressed in terms of money (e.g. price level, exchange rate, interest rate, etc.).
Promissory Notes	:	A promissory note is a financial debt instrument in which one party promises in writing to pay the amount due to the other party at a predetermined future date or on demand under specified terms and conditions.
Bills of Exchange	:	Are negotiable financial instruments like a bond or a promissory note. It is an unconditional written order, addressed and signed by one party assuring another party to whom it is addressed, to pay on demand immediately or at a fixed or at a determinable future time, a certain sum of money either to the specified person or to the bearer.
Government Securities	:	These are government debt instruments like bond and treasury bills. These are also called ‘guilt edged securities’ because they are risk free. They are issued by the RBI on behalf of the government to finance fiscal deficit. They are money market instruments to raise loans for the central government.
Government Bond	:	A bond is a financial instrument with a face value and a specified rate of return on it. These are issued only by the central government to borrow money from the financial market. Government bonds are also called sovereign bonds. They are always denominated in domestic currency like ‘rupee bond’. The government does not ordinarily default on the bond but it can repudiate to pay back. When a government is likely to default on bond the situation is called as ‘sovereign debt crisis’.
IS-LM analysis	:	Developed by Hicks and Hansen, it is the synthesis of real sector and monetary sector in an economy. IS or investment-saving schedule is the locus of the different combinations of real interest rate and GDP at which goods market is in equilibrium. On the other hand, LM (liquidity preference and money supply) is the locus of various combinations of GDP and real interest rate at which money market is in equilibrium. So, IS-LM model combines goods market with money market simultaneously showing general equilibrium in the goods market and money market.

Exchange Rate	**:**	Exchange rate is the price of one currency expressed in terms of other currency. It is a relative price of currencies.
Floating Exchange Rate	**:**	It is a system which allows the exchange rate to be determined completely by the forces of demand and supply in the market with central banks not intervening directly.
Managed Floating Exchange Rate	**:**	It is a combination of fixed and floating exchange rate systems. Under this, central banks allow the currency exchange rate to fluctuate within a predetermined band. Central banks frequently intervenes in the foreign exchange markets to stabilise exchange rate.
Currency Appreciation and Currency Depreciation	**:**	Currency appreciation and currency depreciation are foreign exchange market phenomena under the floating exchange rate system. When the value of one currency in terms of the other currency increases in the foreign exchange market it is called currency appreciation. When the value of one currency in terms of the other currency decreases in the foreign exchange market it is called currency depreciation.

1.8 SOME USEFUL BOOKS AND REFERENCES

1) Bhole L. M. & J. Mahakud (2009). *Financial Institutions and Markets,* 5th Edition, Tata McGraw Hill Publishing Company Ltd.

2) Krugman P. R., M. Obstfeld & M. J. Melitz (2018), *International Economics: Theory and Policy,* 10th Edition, Pearson India.

1.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) (i) ensure the money supply required for the economic expansion (i.e. increase output), (ii) keep the prices stabilised (i.e. control inflation) and (iii) maintain exchange rate stability (i.e. ward off excessive appreciation or depreciation of domestic currency).

2) It is the most liquid form of money consisting of three components viz. currency held by the public, demand deposits or current accounts held by the banks and other deposits kept with the RBI.

3) DM is a multiple of cash deposits which determines the extent of credit money that can be created by the SCBs. DM and CRR are inversely related i.e. higher the CRR, lower is the level of credit money.

4) Yes. If D denotes total deposits, and b and x are the 'fraction of total deposits which the public wants to hold in cash and the CRR respectively, then the 'high powered money' is related as: $H = D * (b + x)$ [$(b + x)$ is the DM].

5) Quantitative measures are employed to regulate the credit creation by the banks. Qualitative measures are employed to direct the credit flows towards the desired sectors and segments of the economy/population.

6) The four conventional roles are: price stability, economic growth, equity and social justice. The additional role added is one of creating new monetary and financial institutions for an orderly development of money market.

7) Economic growth and inflation, both expressed as percentages.

8) CRR and SLR. The former is an obligation of keeping a certain amount of liquid cash with the RBI (which is determined as a 'fraction of the aggregate deposits' with the banks). SLR is 'total liquid resources held by the banks minus CRR'. It is the secondary reserve requirement (the primary one being the CRR). While CRR influences the effective lending capacity of the banks, SLR besides regulating the banking credit also ensures the 'solvency of the banking system'.

9) Repo rate is the rate of interest at which RBI extends loans to commercial banks for meeting their short term fund needs. It is useful as a tool to control inflation in the short term. Reverse repo rate (RRR) is the rate at which the commercial banks can park their excess cash with RBI. RRR is useful in controlling the money supply (e.g. by increasing RRR, RBI is incentivising the banks to part with their excess funds).

10) Open market operations, rationing of credits, margin requirement on loans and moral suasion.

Check Your Progress 2

1) That money is not neutral and as long as the economy is working in a state of 'less than full employment', infusion of money into the economy always results in economic growth or growth in GDP.

2) It refers to a business cycle contraction characterised by an overall slow down in economic activities adversely impacting all macroeconomic indicators like GDP, income, employment, production and prices. A liberal monetary policy can help lower the interest rate thereby giving scope for stimulating consumption and investment demand.

3) Economies like India are characterised by the presence of a large informal sector and huge domestic demand. These characteristics provide a cushion to cope with non-domestic recession.

4) A boom in an economy causes high inflation in an economy already at full employment. Adverse impact of boom is experienced due to inadequate response of supply. To take care of the adverse consequences of boom, what is needed is to improve the supply side response. A tighter monetary policy, coupled with a contractionary fiscal policy, can help overcome the adverse consequences of a period of boom.

5) The objective of price stability is sought to be achieved by the calibrated policy stance of both monetary and fiscal dimension. This helps restore aggregate demand to the required optimum thereby achieving stability in prices.

6) It is a balancing measure aimed at mopping up the excess foreign capital inflow. The balance is achieved by the selling of bonds, minimising speculative devaluation of currency.

7) By increasing aggregate demand as a consequence of lowered interest rates. Lower rates of interest reduce cost of investment and promote creation of additional productive capacities and jobs. Besides this, monetary policy can also help create new financial institutions to tap savings and aid productive growth in the economy.

8) Through reduced interest rates spiralling into promotion of exports and employment creation on the one hand and by advancing priority lending to help establish self employment ventures to assist the poor and marginalised sections on the other.

9) Meet the short term or over night liquidity needs by extending lending and borrowing facility to the banks. Open market operations, market stabilisation scheme and marginal standing facility are the other recently introduced measures for indirect intervention by the RBI in the financial market operations.

10) Introduction of new ‘monetary policy framework agreement’ (MPFA) in 2015. The agreement aims at bringing the CPI linked inflation to 4 percent by 2017-18 and thereafter maintain it in a bank of +/- 2 percent around 4 percent. The policy has served its purpose in keeping the CPI interest rate low i.e. within the 4-6 percent range over the years 2015-18.

UNIT 2 FISCAL POLICY[*]

Structure

2.0 OBJECTIVES

After reading this unit, you will be able to:

- state the objectives of fiscal policy;
- outline the two major types of fiscal policy along with its implications;
- review the fiscal policy followed in India since independence with an emphasis on changes introduced in it during the post-reform years;
- discuss the instruments of fiscal policy; and
- differentiate between the terms fiscal deficit, revenue deficit and primary deficit;

2.1 INTRODUCTION

Fiscal policy is a policy of the government related to taxes, government spending and borrowings of the governments for attaining stability and desired level of growth in an economy. The impact of the fiscal policy on any economy is huge. They can be gauged with the help of indicators like: (i) level of national income, employment and inflation, (ii) level of saving and investment and (iii) the position of balance of payment (BoP).

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In India, the central and state governments combined Tax-GDP ratio has increased from 6.0 percent in 1950-51 to 17.2 percent in 2015-16. Over the years 2006-07 to 2017-18, this ratio has hovered between 10-12 percent (for developed countries this ratio is higher ranging from 20 percent in Russia to 48 percent in France). Non-development expenditure of the central and state government are mainly driven by expenditure on defence, interest payment and subsidy while development expenditure is driven by railways, posts and telecommunication, social and community services, agriculture and allied activities, industries and minerals, power, irrigation and flood control, transport and communication and public works. Fiscal policy has many objectives. Specifically, it aims at: (i) mobilising resources through taxes and borrowings; (ii) maintain price stability; (iii) provide incentives for private sector growth; and (iv) reduce income and wealth inequality.

2.2 TYPES OF FISCAL POLICY

Keynes viewed fiscal policy as a tool by which government can effectively intervene to achieve the desired growth (or control) in important variables like income, employment, price, etc. in an economy. To achieve this, the fiscal policy is used in one of its two types viz. (i) expansionary fiscal policy; and (ii) contractionary fiscal policy.

Expansionary fiscal policy aims at either increasing the government expenditure or decrease the tax rates (or a combination of both) so as to boost the aggregate demand in the economy. It is particularly used at the time of economic recession. Expansionary fiscal policy however has the effect of reducing private investment because it results in higher interest rate. Contractionary fiscal policy aims at reduction in government expenditure or increase in tax or combination of both for reducing aggregate demand in an economy at the time of high inflation. This can be better understood with the help of following National Income Identity proposed by Keynes.

$$Y = C + b(Y - tY) + TR + I + G + NX \qquad (2.1)$$

where, Y = GDP, C = autonomous/subsistence consumption, b = marginal propensity to consume ($\Delta C/\Delta Y$), $(Y - tY)$ is disposable income or induced consumption, TR is ‘transferred funds’ (i.e. from central to state governments on account of states’ share in central revenue, grants in aid, etc.), I is investment, G is government expenditure and NX is net export. Any change in fiscal policy has significant impact on the government’s budget through its effect on all the components reflected in Equation (2.1) above. Normally, expansionary fiscal policy results in fiscal deficit for the government. It is a situation where government income is lower than its expenditure.

2.2.1 Implications of Fiscal Policy

Tax policies impact the level of aggregate demand through changing levels of economic activities which are sensitive to changes in interest rate. While the imposition of higher tax reduces aggregate demand it also lowers the level of economic activities through reduction in private investment. In addition, it impacts the government's social sector expenditure. There are instances where countries experience increase in government expenditure which could not be financed by tax revenues (or other sources of government income). In such situations, government is forced to borrow from the market. As a result of such borrowings, it has to devote resources in servicing the debts. Besides these economic implications, fiscal policy also has significant political implications. For instance, a change in fiscal policy could result in: (i) either increase/decrease in government expenditure or (ii) increase/decrease in tax burden to individuals/firms or both. Such changes resulting in pleasure or displeasure could show up in voters preference to the incumbent government driving them out of power at times. A good fiscal policy should therefore be prudently coordinated with monetary, debt and credit policy for effective results. It should have a clear cut road map of financing fiscal deficit and use of surplus resources.

Indian economy is a developing economy which continues to be characterised by adverse indicators (e.g. poverty, illiteracy, inequality, etc.) of economic development. It has a federal government system with its Constitution conferring the power of taxation and expenditure to both the central and the state governments. The Constitution mandates governments to submit proposals of income and expenditure for each financial year to their legislative bodies for debate and approval (known as budget). While the central government is concerned with the issues related to national interest like defence, PSUs, foreign trade, etc. the state governments are tasked to maintain law and order, address issues related to agriculture, public health, etc. Some areas like education, forest, inflation, social and economic planning fall under the concurrent list providing scope for both the central and state governments to operate. There is also a 3rd layer of government at local level (like municipal corporations, zilla parishads) with power to impose taxes for meeting the requirements of public welfare at their level.

2.3 BRIEF REVIEW OF FISCAL POLICY IN INDIA

A major policy decision in the direction of economic development in India was the establishment of the Planning Commission in 1950. Guided by socialist principles, its principal thrust during the first few decades of its establishment was to set up and strengthen the public sector base in India. The main aim of fiscal policy of that time was also therefore to transfer resources from private sector to the public sector so as to meet the consumption and investment requirements of public sector units. The other objectives of fiscal policy was to reduce income and wealth inequalities by way of taxes and 'transferred funds' to state governments so as to promote a balanced regional growth in the country.

The main source of government revenues being direct and indirect taxes, personal and corporate taxes were initially kept very high. As a matter of fact, even in 1973-74 (after 25 years of independence), the personal income taxes were in 11 tax-income slabs with rates monotonically increasing from a low of 10 percent to a high of 85 percent. The policy was similar in the case of corporate taxes where the system was one in which profit was taxed in the hands of the companies and dividend was taxed in the hands of the shareholders. The corporate tax slabs varied from a high of 45 percent to 65 percent. The Direct Taxes Enquiry Committee (1971) described the impact of the tax system in 1971 as ‘confiscatory’ and recommended tackling the large scale tax evasion (identified as owing to the high tax rates) by a reduction in the *marginal rate of direct taxes* to 70 percent (which was 97.5 percent before for persons with income of above rupees 2 lakhs per year including the surcharge of 15 percent levied). In 1976-77, this marginal rate of taxation was further reduced to 66 percent. A major simplification and rationalisation in this respect was achieved in 1985-86 when the number of tax slabs was reduced to 4 and the highest marginal tax rate reduced to 50 percent.

The major components of indirect taxes are excise duty, service tax and customs duties. Of all these, the central excise duty was a dominant component of indirect tax. Most of the indirect taxes were imposed on inputs of manufactured goods resulting in high price of final goods. To curtail the cascading effect, the Indirect Tax Enquiry Report of 1977 introduced a Manufacturing Value Added Tax (MANVAT). Under this, input tax credit was begun to be given to manufactures. Later, in 1986, a Modified Value Added Tax (MODVAT) was introduced. This however covered only some selected goods. Customs duty, imposed on imports with a view to promote the policy of imports substitution, which had prevailed right from the early phase of economic development in the post-independence period, continued till the 1980s. Towards the middle of 1980s, in 1985-86, the government reduced the tariffs on imported goods and also removed quantitative restriction on imports.

2.3.1 Fiscal Policy in Post-1990s

While the pre-1990s policies was aimed at import substitution, the economic policy of 1990s was pro market. Personal income tax brackets were reclassified into three parts with 20, 30 and 40 percent in 1992-93. This was further reduced to 10, 20 and 30 percent in 1997-98. Wealth tax (which was around 5 percent before) was reduced to 1 percent. Under indirect taxes, the MODVAT credit was expanded to cover most of the commodities by 1996-97. Three rates of excise duty were merged into one single rate and was renamed as Central Vat (CEVAT) in 2000-01. Customs duty on non-agricultural goods which was more than 150 percent were progressively reduced from 40 percent in 1997-98 to 15 percent in 2005-06. A service tax was introduced in 1994-95 and it has since been steadily expanded over the years.

While there were significant changes in the central taxes in the post-reform period, there were not adequate reforms in the tax policies of state governments during the 1990s. In the post-2000 years, as a part of simplification of state sales tax, a Value Added Tax (VAT) was introduced in 2005 in 21 states. Under this, VAT credit were given to tax paid on inputs. The administrative design of the VAT was such that, due to reduction in tax evasion, the revenue of the state governments increased. However, the system was not effective in the creation of a smooth nationwide market. The idea that a single Goods and Service Tax (GST) will be helpful in this direction got mooted for the first time in the year 2000.

A major change in the taxation policy was seen by a significant reforms in the structure of central government revenue. This change was evident in a structural shift from the relative shares of indirect and direct taxes. For instance, around 54 percent of total revenues of the central government came from indirect taxes in 1995-96. This was reduced to 32 percent in 2009-10. Thus, in terms of the relative shares of direct and indirect taxes in the total taxes collected (i.e. direct plus indirect), the share of direct taxes increased by 22 percent over the period 1996-2010 [i.e. from 46 percent to 68 percent]. Two major fiscal challenges that had to be faced by the end of 2010 are: (i) the World Economic Recession of 2008 (which resulted in considerable exchange rate instability and decline in growth rate consequent to decline in aggregate demand and decline in exports) on the external front; and (ii) rural farm loan waiver scheme and expansion of Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) on the domestic or internal front. There was however relatively less effect of the world economic recession on the Indian economy due to factors like: stringent financial market regulation, adequate foreign exchange reserve, big domestic market and timely fiscal policy intervention. GDP growth which was an annual average of 5.7 percent over the two decades period of 1981-2000, increased to an annual average of 7.2 percent during the period 2001-2012. A central GST Act was finally implemented all over the country in the year 2017.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What are the objectives of fiscal policy?

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2) What is a limitation of the expansionary fiscal policy?

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3) State some of the important economic implications of a fiscal policy.

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4) In respect of direct tax (or personal income tax), how would you describe the prevailing situation in India till nearly 25 years after its independence?

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5) Between the 1970s and the 1980s, how was rationalisation in direct taxes brought about in India?

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6) What were the major changes introduced in the fiscal policies of 1990s?

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7) What would you describe as a 'structural shift' in the fiscal policy of India and in what time span was this achieved?

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8) What were the two major factors which posed fiscal challenge towards the end of 2010? What factors contributed to keeping the adverse impact due to these to a minimum for the Indian economy?

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2.4 INSTRUMENTS OF FISCAL POLICY

Since fiscal policy affects the income level by impacting the level of economic activities and level of aggregate demand in an economy, government often borrows and invest in order to maintain or accelerate the economic buoyancy in a country. From this point of view, the aim of fiscal policy can be stated as to manage the level of aggregate demand by calibrating the price and income levels in accordance with the requirements of the economy. This is achieved by adopting the three instruments of fiscal policy viz. (i) taxation, (ii) expenditure (i.e. transfer of funds to state governments and direct consumption of government), and (iii) borrowing or debts.

2.4.1 Taxation

The principal source of government revenues are taxes. They can be broadly classified as: (i) direct taxes and (ii) indirect taxes. Personal and corporate taxes are the main form of direct taxes levied by the central government. Indirect taxes are levied on goods and services and are paid by their end users. Examples of indirect taxes are: excise duty, service tax, customs duty, etc. Central excise duty is an important indirect tax levied on the manufacturing sector. Local bodies impose property tax which is a kind of direct tax.

In the period immediately after India attained its independence, the tax system in India was so structured as to transfer resources from private sector to public sector dominated industrialisation process and to cover the cost of social welfare schemes. The share of indirect taxes in total revenue collection of India was higher than direct taxes. Such indirect taxes distort the resource allocation in the economy as their burden falls disproportionately on different groups of consumers (i.e. those who buy goods with lower elasticity of demand are also burdened with the same amount of tax as others). In other words, higher indirect taxes results in a higher burden of taxes on people with relatively low incomes. Such a policy stance, followed during the decades of 1950-80 kept the growth rate of Indian economy modest (3.5 percent average annual over the period 1950-80). The objective of taxation should be such that the proportion of direct taxes collected is more than the indirect taxes. Gross tax revenue being the sum of corporate tax, personal income tax, customs duties, excise duties and service tax, the focus on increasing the direct tax ratio should aim at expanding the base of corporate and personal income tax. Direct Tax-GDP ratio of the union government has increased from 2.3 percent in 1991-92 to 5.6 percent in 2015-16. Indirect Tax-GDP ratio has correspondingly come down from 7.4 percent in 1991-92 to 4.6 percent for 2015-16. The growth rate of the Indian economy has also increased during the years of late 1990s to the years in post-2000s (as stated above it was 5.7 percent over 1981-2000 and 7.2 percent during 2001-2012). The correlation between economic growth and revenue generation through tax collection (with an emphasis on rising share of direct taxes or lowered share of indirect taxes) is thus evident.

2.4.2 Expenditure

Central government's budgetary expenditure can be broadly divided into its own expenditure and transferred funds to state governments and the union territories. Total central government expenditure is classified into: (i) revenue expenditure and (ii) capital expenditure. Expressed as percentage of GDP, total expenditure of central government in recent years (2014-18) has been about 13 percent of which about 11 to 12 percent (i.e. more than 85 percent of total) is of revenue expenditure and the balance of 1.5 to 2 percent only (i.e. a mere 15 percent of total expenditure) is capital expenditure. Thus, revenue expenditure (which is spent on items like salaries, pensions, subsidies and interest payments) takes up the bulk of central government's expenditure. All grants given to states and union territories are treated as revenue expenditure although out of these grants some part is used for creation of capital assets. The objective of efficient government expenditure requires that over time capital expenditure should increase and revenue expenditure should come down.

2.4.3 Debt

If the total revenue of government is not enough to cover its total expenditure, then government borrows from market by issuing bonds to investors to make up for the deficit. If the size of debt is small in relation to tax revenue, government obligation in terms of debt service and repayment of debt will be low. However, if size of debt is big and revenue collection is not sufficient to service debt, there is the possibility that government may default in the repayment of its debt. In case of high risk of default, interest rate on bond increases to cover the additional risk for investors.

Debt-GDP ratio is the ratio of a country's public debt to its GDP. Debt-GDP ratio of India was around 68.5 percent (of GDP) in 2017. Average debt-GDP ratio of India over the period 1991-2017 is 73 percent [it was highest (84.2 percent) in 2003 and lowest (66 percent) in 1996]. If a country is able to pay interest on its debt without borrowing or compromising on its economic growth, it is considered a stable scenario. Debt-GDP ratio is used as a tool to gauge the ability of a country to service its present and future debts. Empirical studies on the relationship between debt and GDP have established that if the debt-GDP is more than 90 percent, there will be a negative impact on the economic growth of that country (Reinhart-Rogoff, American Economic Review, 2010). However, there are countries, particularly developed countries, with higher debt-GDP ratio for long time (e.g. Japan above 200 percent, USA above 100 percent). But the size of the economy and their total revenue are quite adequate to service and repay their debts. Further, there are some specific features of these economies which is sustaining such a high debt-GDP ratio. For instance, most of the debt of Japan is owned by the Japanese public. Further, the Bank of Japan plays a significant role by purchasing its government bonds. Ownership of government debt in USA is also similar with two-thirds of its public debt being jointly owned by its public, banks, corporations and the federal reserve. Debt in local currency is less risky than debt in non-local currency which is affected by exchange rate fluctuations. Interest rate in both countries is also low which helps them to sustain high debt-GDP ratios.

2.5 FISCAL DEFICIT

Fiscal deficit denotes excess of government expenditure over government's income (i.e. revenue). It is commonly expressed as a percentage of GDP. Although fiscal deficit invariably varies from one year to another, unsustainable or high rates of fiscal deficit poses complications of increased demand for goods and services with a resulting high rate of inflation. In light of this, it is important to keep the level of fiscal deficit within healthy limits. This raises the question of what is an ideal limit for the fiscal deficit?

India's fiscal deficit was 5.8 percent in 1980-81. It rose to a high of 7.9 percent in 1985-86 and 8.5 percent in 1986-87. The beginning of 1990s saw higher fiscal deficit of 7.6 percent in 1990-91 but the decade ended with a lower fiscal deficit level of 5.5 percent in 2001. To set an ideal limit to be targeted by the governments (both central and state governments), a Fiscal Responsibility and Budget Management (FRBM) Act was enacted in 2003 with a view to reduce deficit, and thereby debt, to sustainable levels. The Act required the central government to contain its deficit to under 3 percent of

GDP. The set target was expected to be achieved over a medium term time frame. The measure was meant to ensure inter-generational equity in fiscal management and long term macro-economic stability. An important change of a far reaching nature in the FRBM Act was that, post-FRBM the fiscal deficit of state governments also began to get accounted. Before the FRBM Act, deficit of state government budgets were allowed to be met by overdraft from the RBI. Such overdrafts used to keep piling up and Finance Commissions used to write them off periodically. However, after the FRBM this practice has been stopped and while the states can take overdraft, if it is not cleared within a stipulated time, they are not extended certain conditional grants from the centre. This way, states have been made more accountable for their fiscal deficit post FRBM.

Following the above major step, in the post-2000 years the Indian economy has witnessed achievement of lower fiscal deficit levels in India. Except for some intermittent high levels (e.g. 2009 and 2010, 6 percent; and 2012, 5.8 percent both owing to a large measure to the package of fiscal stimulus necessitated due to the 2008 world financial crisis), for most of the remaining years the level of fiscal deficit has hovered around 4 to 5 percent with a steady decline in its trend (e.g. 2013, 4.9 percent; 2014, 4.4 percent, 2015, 4.1 percent and 2016, 3.9 percent). It is important to enhance the capacity of raising more revenue by tax collections so as to minimise the need to borrow and thereby large fiscal deficits with consequences of higher inflation rate. Since economic expansion for higher incomes need to be targeted as a goal, for which larger amount of developmental expenditure is invariably needed at an ever increasing rate, a prudent balance needs to be struck between optimal taxation policy, higher revenue generation, larger share of development/ capital expenditure [over that of non-development (or revenue) expenditure], an ideal fiscal deficit and higher share of direct taxes over that of indirect taxes. Since it is impossible to achieve a perfect balance among all these desirables, fiscal policy needs to focus on minimising the consequences of high fiscal deficit by targeting the other factors mentioned above.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) State the three instruments of fiscal policy.

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2) Illustrate the two major components of taxes viz. direct tax and indirect tax.

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3) In terms of fiscal policy pursued, what reason could be attributed for the relative low growth rate of Indian economy during the decades of 1950-80?

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4) Between capital expenditure and revenue expenditure, what has been the trend in recent years in India? What comment can you make on their relative ratios?

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5) Why is it important to keep the level of fiscal deficit low?

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6) With what objective the FRBM Act 2003 was enacted? What is a change of a far reaching measure in this Act in respect of fiscal deficit of state governments in India?

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2.6 LET US SUM UP

Fiscal policy is important to generate revenue for the government. A larger collection would mean greater ability for government expenditure. Of the two components of tax (direct and indirect), it is important to focus more on the generation of revenue by direct taxes. This is because the incidence of indirect taxes falls more heavily on people with lower incomes. Likewise, in respect of government expenditure, it is important to have a higher share of capital expenditure than revenue expenditure. In the Indian case, revenue expenditure have been far higher than capital expenditure. A major development of post-2000 years is the enactment of FRBM Act in 2003. The Act sets a limit of 3 percent of fiscal deficit to be attained over a medium time frame. A far reaching provision of this Act is the financial deregulation for state governments to raise capital from foreign markets. The tax-GDP ratio has increased from 6.6 percent in the year 1950-51 to about 12 percent in the post-2005 years. This is still far less than the corresponding ratio in developed countries.

2.7 KEY WORDS

Autonomous Consumption	:	It is a part of private final consumption expenditure which does not depend on income level of consumer. In other words, it represents that level of consumption which will be consumed by consumer even if their income is zero.
Disinvestment	:	It is a process under which governments sell some part of their shareholding to private investors for the purpose of either raising revenue or minimising fiscal deficit.
Economic Recession	:	It is a stage of an economy in which economic activities slow down resulting in decline in growth rate and higher level of unemployment.
Fiscal Deficit	:	(Revenue expenditure + Capital expenditure) – (Revenue receipts + Recovery of loan + other capital receipts) i.e. expenditure minus revenue from capital receipts other than loans taken. In simpler terms, it is: Total Expenditure – Total Receipts (excluding borrowings).
Gross Fiscal Deficit (GFD)	:	This is the amount excess of total government's current and capital expenditure including loans (net of recovery over revenue) and external grants and non-debt receipts.
Net Fiscal Deficit	:	Is the gross fiscal deficit minus net lending by the central government.
Gross Primary Fiscal deficit	:	This is: GFD – interest payment by government.
Capital Expenditure	:	It is expenditure by government to buy/create productive assets sustainable over long period of time.
Revenue Expenditure	:	Is the expenditure incurred for revenue transactions or for operational purposes like- salary and wage, rent, etc.

Primary Deficit	:	It is the amount of fiscal deficit after deducting interest payment on government borrowings.
Revenue Deficit	:	This is equal to 'Total Revenue Expenditure – Total Revenue Receipts'.

2.8 SOME USEFUL BOOKS AND REFERENCES

1) Kumar Rajiv and Alammu Soumya, (2010). "*Fiscal Policy Issues for India after the Global Financial crisis (2008-10)*". Asian Development Bank Institute, Working Paper No. 249.

2) Rao, N. Govind and R. Kavita Rao. " Trends and Issues in tax Policy and Reform in India." India Policy Forum, NCAER, www.ncaer.org/download/journal/ipf0506-paper2.pdf.

2.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Mobilising resources through taxes and borrowings, maintain price stability, provide incentives for private sector growth and reduce income and wealth inequality.

2) It keeps the interest rate high and thereby limits private investment.

3) Higher taxes reduce aggregate demand, lowers economic activity and reduces private investment. This reduces government's revenue and the resultant decline in social sector expenditure.

4) Personal income taxes varied over 11 slabs from 10 percent to 85 percent. With a surcharge of 15 percent, the marginal rate of direct taxation amounted to a whooping 97.5 percent for those with income exceeding rupees 2 lakhs per annum.

5) In the early 1970s, the marginal rate of direct taxes at the higher levels of income was brought down to 70 percent and later to 66 percent. By 1986, it was further brought down to 50 percent.

6) Slabs and rates of direct taxes were reduced to 3 (with 10, 20 and 30 percent rates) and wealth tax was reduced from 5 to 1 percent. Under indirect taxes, MODVAT which was first introduced in 1986 was extended to most of the commodities by 1997 and three rates of excise duty was merged into one rate called CEVAT in 2000-01.

7) For direct taxes, it reduced from 54 percent in 1995-96 to 32 percent in 2009-10. For indirect taxes, it increased from 20 percent to 48 percent over this period.

8) World economic recessions on the external front and the farm loan waiving and the expansion of MGNREGA on the domestic front. Adequate foreign exchange reserve and big domestic market, among others, helped in minimising the impact on the Indian economy due to the external sector challenge.

Check Your Progress 2

1) The three instruments of fiscal policy are: (i) taxation, (ii) expenditure (transferred payment and direct consumption of government), and (iii) borrowing or debts.

2) Personal and corporate taxes are the main form of direct taxes. Excise duty, service tax and customs duty are examples of indirect tax.

3) Growth is stimulated by government expenditure which depends upon its revenue generating ability. In this, ideally, the proportion of direct taxes should be higher relative to that of the indirect taxes. This ensures greater income in the hands of the people followed by greater taxes. During the years, 1950-80, the indirect tax burden was higher. This impacted adversely on the economic growth rate keeping it low at just an average annual of 3.5 percent over this period.

4) Revenue expenditure over the years 2014-18 has been around 11 to 13 percent of GDP whereas capital expenditure is just about 1.5 to 2 percent. Ideally, the relative ratio should not be tilted towards revenue expenditure but the capital expenditure.

5) The consequences of high fiscal deficit is higher demand for goods and services and higher rates of inflation. In view of this, it is important to keep the fiscal deficit low whereby higher economic capacities generated ensures higher level of incomes and higher levels of government revenue. The spiralling effect should be upwards (higher incomes and higher taxes) and not downwards (i.e. higher inflation and lowered purchasing power and reduced demand).

6) The Act was meant to ensure inter-generational equity in fiscal management and long term macro-economic stability.

UNIT 3 TRADE AND INVESTMENT POLICY[*]

Structure

3.0 OBJECTIVES

After reading this unit, you will be able to:

- explain the two approaches of ‘import substitution industrialisation’ and ‘export led growth’ in international trade;
- discuss the two concepts of ‘convertibility’ and ‘deficit of accounts’;
- distinguish between FDI and FII;
- outline the FDI policy pursued by India over different time periods; and
- illustrate the importance of ‘bilateralism’ and ‘multilateralism’ in the context of trend in ‘regionalism’ practiced by countries to promote their respective trade interests.

3.1 INTRODUCTION

Policy of foreign trade and investment are both crucial in the development process. On the imports side, foreign trade is helpful in getting technology, managerial expertise and intermediates essential for growth of the economy. To sustain such imports, exports too need to expand to help finance the imports needed for a high growth path and diversification of the economy. Else, a trade imbalance would induce disruption in the supply of imports causing adverse repercussions for the whole economy. Hence, the foremost

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concern in trade policy is to promote exports in order that there is no difficulty in financing the imports needed for the growth of the economy.

There are many means like institutional innovation, organisational restructuring and policy initiatives which helps attain the desired long run objectives of foreign trade. Among these, policy has a primacy because if policy initiatives are not properly tuned, it transmits an inappropriate set of signals to domestic producers. This equally applies to the Foreign Direct Investment (FDI) as also the Foreign Portfolio Investment (FPI) [or the FII i.e. the Foreign Institutional Investment] policies. Against this background, the present unit begins by making a distinction between the policies of import substitution and export-led growth strategies. Thereafter, it proceeds to explain the foreign trade policy pursued in India prior to 1991 and post-1991 and the FDI and FII policies pursued so far in India.

3.2 TRADE POLICY

For an economy, foreign trade consists of inward and outward movement of goods and services, resulting in inward and outward flow of foreign exchange from one country to another. In present times, international trade policy is a vital part of development strategy. It can be used an effective instrument of economic growth, employment generation and poverty alleviation for an economy.

3.2.1 Import Substitution Industrialisation

Import Substitution industrialisation (ISI) is a trade policy based on the premise that a developing country should attempt to substitute products it imports with domestically produced substitutes. It is an economic development strategy that was in wide use from the end of the World War-II through the mid 1960s. At its zenith in the 1960s, it was adopted by developing countries in Africa, Asia and especially Latin America. The approach was guided by the Prebisch-Singer hypothesis which states that the ‘price of primary commodities, relative to the price of manufactured goods, declines over the long term causing the ToT (terms of trade) of primary product based economies to deteriorate’. To avoid this, many developing countries including India embraced the ISI policy. The ISI has three major tenets or principles viz. (i) an active industrial policy to promote a domestic industrial base (while this is good in itself, the domestic industries tend to grow accustomed to protection from foreign competition with no incentive to become more efficient which makes the tenet to work adversely for the country adopting the ISI strategy); (ii) protective barriers to trade (e.g. tariffs and quotas placed to protect domestic infant industries tend to keep the domestic units uncompetitive and inefficient); and (iii) a monetary policy that rations foreign exchange by multiple exchange rates so as to to channel the imports of intermediate capital goods (i.e. imports are made difficult or expensive discouraging the process of importing).

In India, the state-backed import substitution became the thrust of the trade policy in the late 1950s. Conceived mainly as a long-term solution to India's BoP difficulties, the short-term problems were sought to be taken care of by a tight system of import controls as well as by arranging for a large-scale inflow of assistance. Protection to promote domestic industries through high tariff barriers, multiple exchange rates, import licensing arrangements and subsidies was thus not seen as detrimental to trade and development. The import substitution regime continued till 1981. Such prolonged use of ISI policy in India is since recognised to have resulted in market concentration, high unit cost of production, overvaluation of currency, extreme government intervention in production, etc. cumulatively contributing to an anti-export bias. Thus, the ISI strategy yielded neither industrialisation nor growth with the long term growth from the late 1950s to 1981 having remained an average 3.5 percent per annum. It is only in the post-1980s, with the adoption of ELG strategy that the economy started growing at a faster long term average annual growth rate of 5.5 percent successively till the later years of 1990s when the growth rate peaked to cross the 7 percent mark.

3.2.2 Export Led Growth

Export–led growth (ELG) is an economic development strategy emphasising on the exploitation of a country's actual or potential comparative advantage in production for foreign markets. In other words, ELG is a trade and economic policy, opposite to the ISI policy, aiming to speed up the industrialisation process of a country by promoting export of goods for which the nation has a comparative advantage. It is contrasted with the ISI policy since it is 'outward looking' whereas ISI is 'inward looking'. Modern forms of export-led growth strategy first came to prominence in the 1960s when several East Asian countries turned away from the ISI approach and began to promote export of manufactured goods. The success of these Asian export economies, who came to be identified as the Little Dragons or Four Tigers, questioned the idea of export pessimism i.e. the belief that low and middle income developing economies could not compete with manufactured goods in developed country markets. With this, by the mid-to-late 1980s, the strategy of export-led growth had completely replaced the ISI orthodoxy.

In addition to the demonstration effect of East Asian export economies, several other factors stood behind the success of ELG strategy as a policy idea. Prominent among them are: (i) the loss of confidence in interventionist, state-led management of the economy; (ii) the failure of traditional ISI policies to address the worsening economic conditions of Latin America (stemming from its debt crisis of the 1980s); and (iii) the communication and transportation revolution of the last decades of the twentieth century. In particular, the technological changes in transport and communications enabled firms to locate the production units abroad and increased the opportunities for developing countries to participate in production processes spanning across nations. All these changes supported the idea of pursuing the comparative advantage and ELG as engines of growth.

India initiated its export-led growth strategy in the early 1990s when its economy was begun to be integrated with the world economy. As a result, India's merchandise exports share in world exports increased from its share of 0.5 percent in 1990 to 1.7 percent in 2013. Although this is a meagre increase compared to the corresponding jump achieved by many other competing economies, over the years, the trade policy of India has undergone fundamental shifts to correct the earlier anti-export bias through the removal of various quantitative restrictions (QRs), reduction and rationalisation of tariffs, liberalisation in the trade and payment regime, adoption of various export incentive measures, movement toward markets based exchange rates, etc. These measures indicate that the country has seriously opted for ELG strategy so as to improve the competitiveness of Indian products in the global market.

3.2.3 Convertibility and Deficit of Accounts

Currency convertibility refers to the right/freedom to covert the domestic currency into other internationally accepted currency and vice versa. Convertibility has two dimensions: (i) current account convertibility and (ii) capital account convertibility. Current account convertibility refers to the freedom in respect of payments and transfers for current international transactions. Capital account convertibility, on the other hand, implies the freedom to convert local financial assets to foreign financial assets (and vice versa), at market determined exchange rate, without needing approval from the government. In other words, capital account convertibility (CAC) implies complete mobility of free and unregulated capital funds across countries with no restrictions. With growing strength of the BoP, India could make the Rupee fully convertible on current account in 1994.

With increased integration of the Indian economy with other countries, there is a need for introducing CAC for integration of financial markets across countries. There are certain advantages of CAC. Firstly, with CAC, the cost of capital would come down as there would be more capital inflow into the country. Secondly, tax levels would come down to international levels reducing tax evasion and capital flight. Thirdly, resident individuals would have the right to acquire financial assets abroad. Fourthly, with Indian mutual funds becoming free to invest abroad, investment in overseas markets would enable setting up of joint ventures. In spite of these advantages, and many officially sponsored reports recommending the introduction of CAC in India, India has not embarked on full CAC. This is a prudent cautionary stand as there are also some risks with full and unconditional CAC. The risks are broadly on two fronts: (i) it could expose the economy for currency devaluation, takeovers, short term macroeconomic disturbances like increased unemployment, etc. and (ii) at the extreme, there could be risks impinging on the sovereignty concerns particularly where the size of the economy is small. In view of the actual size of the Indian economy, the latter risk mentioned above is certainly in the very extreme, but the first risk of short term nature also needs due calibration of CAC relaxation over time. This is exactly the stand adopted by India on total CAC.

Deficit of Accounts: You are aware that the Balance of Payments (BoP) is a systematic record of all international financial and trade transactions that occur between a Home Country and the rest of the world within a given time period. Defined as Exports (X) minus Imports i.e. X – M, a deficit in BoP could result in three type of accounts viz. (i) Trade Account deficit (or simply trade deficit), (ii) Current Account deficit and (iii) Capital Account deficit. The trade deficit [or balance of trade (BoT) deficit] refers to the excess of merchandise imports (M) over merchandise exports (X) i.e. M – X. Thus, BoT is in surplus or deficit depending on whether X – M is positive or negative. Current account deficit indicates increase in the indebtedness of the nation to the rest of the world. In other words, it is the excess of expenditure over receipts on current account in a country's BoP. While this reflects the immediate short term health status of the economy, capital account deficit (CAD) reveals that the long term health of the nation is deteriorating. Taking all the three into account, the BoP deficit is defined as the sum total of the current account deficit and the capital account deficit. Thus:

BoP Deficit = Current Account Deficit + Capital Account Deficit.

Check Your Progress 1 [answer within the space given in about 30-100 words]

1) Why is a 'trade policy' important for an economy?

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2) What is the underlying philosophy behind the ISI strategy? On what foundation is it based?

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3) What are the three basic tenets of ISI strategy and how do they begin to work against the economy practising the ISI approach?

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4) In what way is the India's practising of the ISI strategy acknowledged to have negated the expected benefits from the ISI approach?

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5) What factors led to the adoption of the ELG strategy by several economies in the late 1960s? What factors indicate the seriousness of India's adopting the same in the post-1990s?

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6) Distinguish between current account convertibility and capital account convertibility.

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7) State the advantages of 'capital account convertibility'.

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8) In spite of many perceived advantages of capital account convertibility, what has been the stand of Indian government in this regard? Why? Do you support such a stand?

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3.3 FDI POLICY

FDI flows come as capital bundled with technology, skills, and sometimes even market access. They are, therefore, perceived as important resources for expediting the industrial development of recipient countries. Most developing countries, therefore, have a welcoming attitude towards MNCs and FDI since it fosters growth by increasing capital accumulation, technological change, efficiency, BoP improvement, increase of exports, increase in the overall total amount of investment in the domestic economy, improved access to world markets, help in release of resource constraints on investment, etc. India's FDI policy has so far gone through three main phases as outlined below.

A) **First Phase (1950-1980)**

During this phase, India was receptive to foreign capital, particularly foreign direct investment (FDI). This is indicated in the assurance made by the government in 1949 by stating that: (i) there shall be no discrimination between Indian and foreign undertakings; (ii) facilities will be given to foreign investors for remittances of profit; and (iii) due compensation will be paid in case a foreign undertaking is nationalised. The attitude towards foreign capital remained unchanged in the 1956 Industrial Policy Resolution (IPR). Foreign Investment policy in this phase was largely determined by the struggle between the government and monopoly foreign interests, particularly TNC oil companies.

B) **Second Phase (1980-91)**

The period saw the initiation of liberalisation process and was guided by the principle of relaxation of controls which acted as constraints. The approach to industrial policy saw the delicensing of industries and the scrapping of the 1969 MRTP Act. However, liberalisation in this period was restricted to limited foreign collaboration. The industrial policy statement of 1977 particularly discouraged foreign collaboration by stating that the inflow of technology would be allowed only in sophisticated and high priority areas where Indian technology had not adequately developed. In areas where foreign technology was not further needed, renewal of foreign collaborations was discouraged.

C) **Third Phase (Post 1991)**

With the announcement of new Industrial Policy of 1991, a new phase in FDI began. After following a restricted FDI policy for more than four decades since Independence, India liberalised its FDI policy considerably. Besides opening new sectors (e.g. banking, mining, insurance telecommunications) to FDI and dismantling of controls and regulations, the government allowed huge concessions and relaxations. In particular, the main measures announced since 1991 to give a boost to FDI are as follows.

a) Many industries were deregulated and opened to FDI. The Foreign Investment Promotion Board (FIPB) was allowed to sanction 100 percent equity participation in cases where Indian companies were unable to raise funds.

b) Procedures for obtaining permission were simplified by listing industries eligible for automatic approval up to specified levels of foreign equity. For instance, 51 percent foreign equity was permitted with automatic approval in industries producing intermediate and capital goods;

c) Besides FDI, portfolio equity investment (PEI) from abroad was also given an impetus. Under this, foreign institutional investors were allowed to purchase shares of listed Indian companies in the stock market thereby opening a window for portfolio investment in existing companies. Thus FIIs were allowed to operate in the Indian capital market and Indian companies were allowed to raise capital in the international market. These policy changes have led to a significant increase in FDI flows from negligible levels in 1990 to over $35 billion in 2014-15.

While the above measures are of the period 1991-95, post-1995 a series of more liberalising measures were taken. These are:

a) Introduction of dual route of approval of FDI i.e. RBI’s automatic route and the FIPB route;

b) Automatic permission for technology agreements in high priority industries;

c) Removal of restriction of FDI in low technology areas and liberalisation of technology imports;

d) Permission to NRIs and overseas corporate bodies to invest up to 100 percent in high priority sectors;

e) Hike in foreign equity participation limits to 51 percent for existing companies;

f) Foreign equity participation for up to 100 percent for projects relating to electricity generation, transmission and distribution, and roads and highways, etc.;

g) Increasing the ceiling for FDI in oil refining from 49 percent to 100 percent;

h) 100 percent FDI in telecommunication sector, tea sector, airports, etc.

In more recent years (2014), an investor-friendly FDI policy to permit FDI of up to 100 percent under the automatic route in most sectors/activities (e.g. construction, operation, and maintenance of identified railway transport infrastructure) except in defence where FDI cap is kept at 49 percent is implemented. Norms related to minimum land area, capitalisation, and repatriation of funds for FDI in construction development projects have been further liberalised. However, in some sectors FDI is completely banned. These are: retail trading (except in single-brand wholesale trading), atomic energy, lottery, real estate business, chit fund business, cigarette manufacturing, etc. In 2016, the government allowed 100 percent FDI for marketplace e-commerce. During this period, FDI in the pension sector has been revised to permit foreign investment up to 49 percent, with 26 percent under automatic route.

The result from this FDI policy is that FDI as a percentage of gross domestic investment (GDI) and GDP has grown rapidly between 1991-92 and 2015-16. Despite this expansion, FDI inflows to India is low compared to other countries of Asia. Ironically, despite the investment friendly liberal FDI regime, India is ranked ‘fourth’ on the basis of ‘FDI Restrictiveness Index’. Though the actual inflow of FDI has not been as high compared to what it is in some other countries, it has improved and strengthened the capital account of the BoP of the country.

3.3.1 FII Policy

The entry of FIIs after 1992-93 is a follow up of the recommendation of the Narsimham Committee Report on Financial System. Before 1992, only Non-Resident Indians (NRIs) and Overseas Corporate Bodies were allowed to undertake portfolio investments in India. Post-1992, the Indian stock markets were opened up for direct participation by FIIs. FIIs were allowed to invest in all securities traded on the primary and the secondary market including the equity and other securities/instruments of companies listed in the stock exchanges in India.

In 1998, Indian companies were allowed to issue bonus shares (or right shares) to the GDR/ADR (i.e. Global or American Depository Receipts) holders after obtaining necessary permission. Subsequently, the FIIs were allowed to invest in the securities of unlisted companies, treasury bills and government securities. The norms for FIIs’ investment in convertible bonds were also liberalised. In short, the evolution of FII policy in India has taken the form of: (i) relaxation of investment limits for FIIs; (ii) relaxation of eligibility conditions; and (iii) liberalisation of investment instruments accessible to FIIs.

3.4 REGIONALISM

Regionalism is a term used (in the GATT and the WTO) to refer to Preferential Trade Agreements (PTAs). The dictionary of Trade Policy Terms describes regionalism as the process by which regional trading agreements (RTAs) serve as ‘actions of governments to liberalise or facilitate trade on a regional basis’. RTAs can take several forms viz. (a) free trade areas, (b) custom unions, (c) common market and (d) economic unions. *Free trade areas* agree to reduce or abolish trade restrictions between member countries while allowing members to impose their trade restrictions against non-members. *Custom unions* encourage free trade among members but erect a common external tariff on imports from non-member countries. *Common markets* are similar to custom unions but include the free movement of factors of production as well as trade. It is a deeper form of integration as it requires a greater degree of harmonisation of domestic policies between the member states. Finally, *economic unions* take the development of a common market even further by encouraging harmonisation of national economic policies, such as competition policy, financial regulations, and product standards.

Concern regarding the fragmentation of the world trade system has grown with the rapid proliferation of regionalism or preferential trade agreements in recent years. Several hundred Preferential Trade Agreements (PTAs) are currently in existence. Indeed, many countries belong to multiple PTAs, resulting in a confusing criss-crossing of trade preferences. Among the more prominent existing RTAs are the North American Free Trade Agreement (NAFTA), the European Economic Community (EEC), the European Free Trade Association (EFTAs), MERCUSUR (Custom Union between the Argentine Republic, Brazil, Paraguay, and Uruguay), the Association of South East Asian Nations (ASEAN), Asian Free Trade Area (AFTA), the Trans-Pacific Partnership (TPP) agreement, etc.

In the past, India had adopted a cautious approach to the RTAs. Since late 2000s, recognising that RTAs/PTAs/FTAs would continue to feature prominently in world trade, given the slow nature of multilateral negotiations under the rules and regulations regime of the WTO, India has begun moving towards FTAs/RTAs and Comprehensive Economic Cooperation Agreements (CECAs) [e.g. Agreement on South Asia Free Trade Area (SAFTA), India-ASEAN Comprehensive Economic Cooperation Agreement (CECA), India Pacific Trade Agreement (IPTA) etc. The net impact of the RTAs on export performance and trade.

3.4.1 Bilateralism and Multilateralism

Bilateralism or Bilateral Trade Agreements are two way agreements on trade between two countries to extend specific privileges not extended to others. It became widespread in the 1930s with countries trying to protect themselves from the fall in international trade during the depression. While India has always stood for rule based multilateral trading system (MTS), in recent years, it has been active with bilateral agreements. Some of the important bilateral agreements of India with other countries are: EHS (Early Harvest Scheme) with Thailand, India- New Zealand FTA-CECS, India-Canada FTA and India-Australia CECA.

Multilateralism or Multilateral trade agreements are the agreements for deepening global trade and development. They are founded on the core principle of non-discrimination. They are guided by the rules and regulation of the World Trade Organisation (WTO). Ministerial Decisions under WTO at different Conferences have focused on agriculture, cotton and issues related to least developed countries (LDCs). These cover public stockholding for food security purposes, Special Safeguard Mechanism (SSM) for developing countries, commitment to abolish export subsidies for farm exports in developed countries and measures related to cotton. Decisions are also made in WTO on preferential treatment to LDCs in the area of services and the criteria for determining how exports from LDCs can be beneficial to them.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What was the stand of the Indian government on FDI at the time of independence and immediately after it in the 1950s?

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2) What was the attitude of the government during the 1970s towards FDI and foreign collaboration?

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3) What major strides were initiated to encourage the flow of FDI in the post-1991 years in India?

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4) What are some of the further liberalised measures initiated in the more recent years (post-2010) to encourage the flow of FDI to India?

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5) How is FII different from FDI?

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6) In what respects would you summarise the opening up of the Indian markets to the FIIs?

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7) Define the term 'regionalism'. What trend would you notice in respect of FTAs in India? Why?

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8) Distinguish between bilateralism and multilateralism with examples. Why has multilateralism come to occupy a back seat of late?

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3.5 LET US SUM UP

While the ISI strategy is inward looking, aimed at boosting the domestic industrial base by protection from foreign competition and imports, ELG is an outward looking export oriented growth policy. India practiced the ISI strategy with limited and cautious exposure to FDI for nearly four decades after which it too adopted the ELG strategy. The growth of the economy in the post-1980s, and then in the later years of 1990s, are testimony to the fact that the ELG strategy is superior to that of the ISI strategy. The policies adopted for FDI has also seen a distinct shift from the cautious stand demonstrated for close to four decades and the welcoming stand adopted in the years after the 1990s. While this has been the trajectory of India in respect of its investment policy, on trade, India has always believed in non-discriminatory multilateralism. However, owing to the difficulties of negotiations on interests of India and the other LDCs in the WTO, there has been a concerted shift towards FTAs, RTAs and PTAs in the recent years.

3.6 KEY WORDS

ISI	:	ISI is a trade and economic policy based on the premise that a developing country should attempt to substitute products it imports with domestically produced products.
Unorganised FDI and FII	:	FDI is a long term international capital movement directly made in development projects in other countries. It refers to movement of investible funds or finance. If the lender has operating control over the asset's use, then investment is direct, otherwise it is portfolio or the FII.
Regionalism and Multilateralism	:	Regionalism is the process by which the actions of governments to facilitate trade on a regional basis is promoted. Multilateralism are agreements between a group of countries for deepening global trade. It is founded on the core principle of non-discrimination.

3.7 SOME USEFUL BOOKS AND REFERENCES

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International Money Market and Indian Economic Reforms, Kanishka Publishers, Distributors, New Delhi.

4) Sharan Vyuptakesh and Indra Natn Mukherjee (2001). *India's External Sector*, Oxford University Press, New Delhi.

3.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) For achieving good economic growth, trade between countries is essential as any economy cannot have the comparative advantage required to produce all that goods that it requires. The imports made need to be financed for which in order to earn the necessary foreign exchange there should be corresponding exports. Thus, policy to promote exports and imports, or to engage in trade beneficial for the economy, is very crucial. In its absence, a trade imbalance would disrupt the economy in its growth path.

2) It is based on the premise that importing economies should substitute the products being imported with what can be domestically produced as their substitutes. Its foundation is based on the Prebisch-Singer hypothesis which states that in the long run the economies exporting the primary commodities would stand to lose in terms of the ToT advantage in comparison with the economies exporting manufacturing goods.

3) The ISI strategy works on three tenets viz. promotion of domestic industries, protection from foreign products through high tariff rates and quotas and a monetary policy practicing multiple exchange rates and control over foreign exchange. Though the measures are basically aimed at promoting the domestic industrial base, in effect they induce them to remain uncompetitive and inefficient.

4) The acknowledgement is made in terms of concentrated market structure, high unit cost of production, overvalued currency and high degree of government intervention in production systems, etc. cumulatively resulting in an anti-export bias.

5) The loss of confidence in the state-led interventionist approach, failure of ISI to address the Latin American debt crisis and the developments in the ICT sector enabling the setting up of manufacturing sector anywhere where there is a comparative advantage in production. On India's part, phased removal of QRs, progressive reduction of tariffs and subsidies, liberalisation measures in the trade and payments regime, adoption of various export incentive measures, movement towards market based exchange rates, etc. indicate the seriousness in its adopting the ELG strategy.

6) Current account convertibility provides freedom in respect of payments and transfers for current international transactions. Capital account convertibility refers to a far wider freedom to convert local financial assets to foreign financial assets (and vice versa) at market determined exchange rate. Capital account convertibility (CAC) therefore implies total free and unregulated mobility of capital funds across countries with no restrictions.

7) It reduces the cost of capital due to increased capital inflow into the country. Tax levels would come down to international levels which in turn reduces tax evasion and capital flight. Resident individuals would have the right to acquire financial assets abroad. Mutual funds would become free permitting their investment in overseas markets enabling setting up of joint ventures.

8) In spite of the many advantages of CAC, there are also risks mainly on two fronts: (i) it could expose the economy for currency devaluation, takeovers, short term macroeconomic disturbances like increased unemployment, etc. and (ii) in the extreme, there could be risks impinging on the sovereignty concerns. However, in view of the size of the Indian economy, the latter risk is not high. But due to the criticality of the short term risk, India has adopted gradual moderation of its CAC policy, on a year to year basis, through its EXIM policies announced. Due to this reason, the cautious stand of the Indian government is creditable.

Check Your Progress 2

1) The government assured equal treatment to MNCs including facilitation for repatriation of profits and compensation in case of nationalisation. The second IPR of 1956 also adopted a similar stand.

2) The attitude of the government was one of restricted or limited collaboration in sophisticated and high priority areas where competence of Indian technologies was inadequately developed.

3) Establishment of Foreign Investment Promotion Board to allow 100 percent equity participation, simplification of procedures to allow 51 percent foreign equity by merely listing such industries where this was allowed, allowing the FIIs to operate in the Indian capital market, allowing the Indian companies to raise capital in the international market, introduction of a dual RBI automatic route for FDI, removal of restrictions on FDI in low technology areas, etc.

4) Permitting FDI of up to 100 percent in most sectors/activities, Relaxation of norms on capitalisation and repatriation of funds raised for construction development projects, allowing of 100 percent FDI for marketplace in e-commerce, permitting of 49 percent FDI etc.

5) FDI refers to investment in development projects (like infrastructure projects) directly. The capital invested remains in the domestic economy with only the profits made repatriated. FII, on the other hand, relates to investment of capital in the equity markets including securities (i.e. stock exchanges) where capital can leave the economy over night. Investment in FII only reflects the investors sentiment or confidence in the stock market whereas FDI shows a long term commitment linked to the growth prospects in the economy in which investment is made.

6) The evolution of FII policy in India could be summarised by way of: (i) relaxation of investment limits for FIIs; (ii) relaxation of eligibility conditions; and (iii) liberalisation of investment instruments accessible to FIIs.

7) Regionalism is defined as cooperation between countries to liberalise or facilitate trade between countries of a region. Since late 2000s, there has been an increase in the number of PTAs/FTAs/RTAs in India in view of the fact that the negotiations in the WTO for multilateral negotiations have been slow and dragging.

8) Bilateralism refers to agreement on trade concessions between two countries. Examples are: EHS between India and Thailand. Multilateralism, on the other hand, are guided by the rules and regulations of the WTO founded on the core principle of non-discrimination. Reasons for decline of multilateral agreements under WTO include contentious issues like protection of farm sectors' interests in LDCs vis-à-vis huge export subsidies given by the developed countries for farm exports.

UNIT 4 LABOUR LAWS AND REGULATIONS[*]

Structure

4.0 OBJECTIVES

After reading this unit, you will be able to:

- state the objectives of labour policy;
- outline the historical context in which labour laws got instituted in India;
- discuss the various laws for labour welfare under which the organised sector employees in India are covered;
- explain the arrangements for social security for the organised and unorganised sector workers in India;
- illustrate the recent measures of 'labour reform' initiated in recent years in India; and
- identify the changes required in the Industrial Disputes Act of 1947 in order to stimulate demand for labour and employment generation in India.

4.1 INTRODUCTION

The labour policy derives its philosophy and content from the Directive Principles of State Policy as laid down in the Constitution of India. The Article 43 of the Constitution states that: The State shall endeavour to secure,

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by suitable legislation and economic organisation, to all workers – agricultural, industrial or otherwise – work/employment at living wages and appropriate conditions, ensuring a decent standard of life and full employment with leisure time for pursuing social and cultural opportunities.

While in the early decades of independence, the labour policy was preoccupied mainly with the organised sections of the labour force, attention during the post-2005 years has been paid to take care of the interest of the workers in the unorganised sector. An organised sector unit is defined as 'establishments governed by at least one legislation to protect the interest of their workers'. The Ministry of labour, Government of India, in its administration of various provisions of 'compulsory notification of vacancies for the organised sector of the economy' [under their Employment Market Information (EMI) surveys], covers 'all establishments in the public sector irrespective of their size and non-agricultural establishments in the private sector employing more than 25 workers on a compulsory basis and 10-24 workers on a voluntary basis'. Another important survey, the Annual Survey of Industries which collects data on Industrial Statistics in India, covers all factories registered under the Factories Act, 1948. The scope of the ASI surveys includes 'all factories employing 10 or more workers if using power, and 20 or more workers if not using power'.

The labour policy of India has been evolving over time in response to the specific needs of the situation and to suit the requirements of planned economic development and social justice. The legislative measures are evidences of diversification of labour policy to progressively fulfil the Directive Principles of the Constitution. The objective of any labour policy is to ensure a conducive environment to labour-management cooperation.

4.2 LABOUR POLICY PRIOR TO INDEPENDENCE IN INDIA

When the Royal Commission on labour set up in 1929 submitted its reports in 1931, the working class in India was not sufficiently organised. In view of the prevailing conditions of strikes and lockouts resulting in strained relations between the employers and the employees, the Commission recommended: (i) trade unions' right of negotiation, (ii) setting up of Labour Welfare Officer, Wage Boards and Works Committee, (iii) maternity benefit legislation, (vi) housing facilities, (vii) permanent statutory machinery to deal with disputes, etc. Hence, much of the labour policy of India in the initial stages originated with the recommendation of this Royal Commission. Later, during the World War-II a need was felt to meet the war needs by improving the labour conditions to achieve higher production. With the end of the war, the priority was shifted to securing a higher standard of living for the workers and ensure a continuous supply of skilled hands to meet the needs of growing Indian industries. A landmark in the field of labour policy was the appointment of the Labour Investigation Committee in 1944 to look into the issues of wages, employment, housing, conditions of work in factories, etc. The Commission, in its report submitted in 1946, recommended: (i) a code of safety to reduce accidents, (ii) state funded insurance against employment injury, occupational diseases and maternity benefits, (iii) linking dearness allowance (DA) with cost of living index and (iv) recognition of trade unions. It was thus realised that without satisfying the labour class, the industrial development is not possible and hence serious thought must be given to the formulation of a national labour policy. The then Ministry of Labour drew up a four-year phased programme, 1947-51, to develop basic labour standards in respect of working conditions, health, welfare and safety in industrial undertakings. The programme attempted to: (a) revise the existing labour legislation to meet the changing needs of the time; (b) eliminate completely and/or control contract labour; (c) extend employment opportunities/ exchanges to cover all classes of workers; (d) evolve fair terms of service and deal for workers; (e) fix wages in sweated industries; (f) rationalise rates of dearness allowance to promote fair wages; and (g) lay down the nucleus for an industrial health insurance programme.

The industrial policy statement of 1945 emphasised that one of the objectives of new industrial policy would be, ‘to secure for industrial workers a fair wage, decent conditions of work and reasonable security of tenure’. In Independent India, the Constitution which was enacted in 1950 ensured a decent living of working conditions, a living wage and social security for workers.

4.3 LABOUR LAWS FOR ORGANISED SECTOR

The various laws pertaining to labour welfare and regulation can be classified under four heads. Laws relating to: (A) working conditions; (B) employee relations; (C) wages and monetary benefits ; and (D) social security. In this section we will study some of the important laws pertaining to the organised sector.

4.3.1 Working Conditions

Under this, we shall briefly study the objectives and provisions of the following six Acts, being implemented for different sections/sectors of labour, in order of the chronology (1948, 1951, 1952, 1970, 1979 and 1985) in which they were enacted.

1) **The Factories Act, 1948:** Under this Act, the term ‘factory’ is defined as a premises where a manufacturing process is carried out ‘by 10 or more persons if using power or by 20 or more persons if not using power’. The Act mandates registration of factories subject to the above definition and provisions working conditions relating to: (i) health precaution of workers, (ii) welfare and safety of workers, (iii) conditions under which women work, and (iv) working hours for adults and children. The maximum work hours have been fixed at 48 hours a week,

or daily hours not exceeding 9 hours. The use of child workers below 14 years is prohibited. Leave with wages for workers, protection against hazardous operations, payment of over-time, inspection of the working conditions in factories by inspectors, the role of authorities under the Act, etc. are specified. The Act obligates every employer to register his factory and obtain a license from the State government before the factory is set-up.

Under the safety provisions, the Act provides detailed specifications about the space to be provided to every person workings in the factory, installation of machines and their fencing, etc. The Act was substantially amended in 1987. The amendment was consequent to the Bhopal gas disaster in which nearly 8,000 people died and many thousands got disabled. This disaster led to introspection by the government about the adequacy of the provisions of the Factories Act. The amendment was carried out in 1987, and a new chapter IV-A was inducted into the Act. The amendment tightened the provisions relating to hazardous processes. The Amended Act substantially enhanced the penalties to be inflicted on persons responsible for the violation of the Act. Imprisonment period has also been enhanced up to two years.

The Factories (Amendment) Bill 2005 was introduced to provide flexibility in women's employment with adequate safeguards such as provisions of shelters, rest rooms, protection of dignity and safety, protection from sexual harassment, etc. The Act is criticised on the ground that it does not cover workers of the unorganised sector as also of very small establishments. Inspection of factories also remains unsatisfactory.

2) **The Plantation Labour Act, 1951:** The conditions of workers employed in plantations are regulated by the Plantation Labour Act (PLA). The Act applies to plantations of coffee, rubber and cinchona. All plantations are required to be registered with a registration officer appointed under the Act. The provisions of PLA mainly deal with health and welfare measures. These include: drinking water, medical facilities, crèches, recreational facilities, educational facilities and housing for workers and their families.

3) **The Mines Act, 1952:** The Mines Act provides for health, safety and welfare of workers employed in mines. The term 'mine' refers to any excavation operation carried out for the purpose of obtaining minerals. The Act provides for various health and welfare provisions for those working in the mines. These include: supply of drinking water and medical appliances. A person who has not attained the age of eighteen years is prohibited from working in a mine.

4) **The Contract Labour (Regulation and Abolition) Act, 1970:** The Contract Labour (Regulation and Abolition) (CLA) Act seeks to regulate

the employment conditions of contract workers and provides for its abolition in certain circumstances. As per the CLA, all employers employing contract labour are required to register themselves with the registrar appointed by the government. The contractor working for the principal employers are required to obtain a license from the authorities. It is thus mandated for the employer to employ contract labour in a legal way that is permissible under the law. Contract labour use has grown throughout the world over the last few decades, especially after the onset of the globalisation process. In India, their numbers have increased from 12 percent of all registered manufacturing workers in 1999 to over 25 percent in 2010. The Act provides for prescribed health and welfare measures for contract labour as stipulated in chapter V of the CLA.

5) **The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979:** Indian industries employ a good number of inter-state migrant workers. The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act (ISMWA) was enacted with a view to protecting the migrant workers from exploitation. The Act provides for certain minimum conditions of employment by issuing a passbook to every inter-state migrant worker which contains details about: (i) employment, (ii) payment of displacement allowance, (iii) payment of wages during the period of the journey, (iv) residential accommodation and medical facilities, (v) protective clothing and (vi) equal pay for equal work irrespective of gender.

6) **Child Labour (Abolition and Regulation) Act, 1985:** It is estimated that the largest number of child workers in the world are in India. The Child Labour (Abolition and Regulation) Act (CLARA) prohibits the employment of children below the age of fourteen years in factories and hazardous employment which includes glass and glassware, fireworks and match making, and carpet weaving. In cases where children are allowed to work, the Act regulates their working hours.

4.3.2 Employee Relations

The legislation for employee relations are covered under three principal laws viz. (i) the Trade Unions Act, 1926 (TUA), (ii) the Industrial Employment (Standing Orders) Act, 1946 and (iii) the Industrial Disputes Act. 1947 (IDA). The salient features of these three laws are discussed below.

1) **The Trade Unions Act, 1926:** The Trade Union Act (TUA) provides for registration of trade unions and thus creates a countervailing power in favour of the working class. The Act provides that all employees employed in industry, including managers, can become members of trade unions. The TUA confers immunity upon a registered trade union and its members against certain civil and criminal acts. The rationale of providing such immunity is to allow a registered trade union and its

members their right to withdraw labour if they perceive exploitation, and use that situation of work stoppage as a leverage in the bargaining process.

2) **The Industrial Employment (Standing Order) Act, 1946:** The Industrial Employment (Standing Orders) Act (IESOA), defines conditions of work for different categories of workers making them conscious about their employment rights. The Act applies to industrial establishments employing 100 or more workers.

3) **The Industrial Disputes Act, 1947:** The IDA provides a statutory machinery for dispute resolution. The machinery consists of a three stage process viz. conciliation, adjudication and arbitration aimed at resolving the industrial disputes whenever negotiations fail. The machinery applies to both individual as well as collective interests and rights. The three stages are sequential i.e. where a dispute is not resolved through the mechanism of conciliation, it can go for adjudication. Three adjudicatory bodies are prescribed viz. labour courts, industrial tribunals and national tribunals. The arbitration of industrial disputes is provisioned by a mutually agreed arbitrator who is selected by both the disputant parties.

As per the IDA, the state can intervene in any dispute between employers and employees who are expected to inform the labour commissioner before declaring a lockout or going on a strike. In all such cases, if the factory employs hundred or more workers, to retrench even a single worker an employer must seek the permission of the state labour commissioner. An amendment to the Act in 1976, raised the ceiling on employment in firms to 300 but in 1982, the ceiling for seeking permission to retrench workers was rolled back once again to 100 workers. This law therefore makes it more or less impossible for firms coming under the purview of the Act to retrench workers.

4.3.3 Wages and Monetary Benefits

Under this, we discuss the main features of four pieces of legislation viz. (i) the Payment of Wages Act (POWA), 1936; (ii) the Minimum Wages Act (MWA), 1948; (iii) the Payment of Bonus Act (POBA), 1965; and (iv) the Equal Remuneration Act (ERA) 1976.

1) **The Payment of Wages Act, 1936:** This is one of the earliest labour laws enacted in colonial India with the objective of ensuring: (i) the payment of wages on time to the worker, (ii) that payment is made in current coin, and (iii) that no impermissible deductions are made from them. The Act applies to factories, railways and other establishments.

2) **The Minimum Wages Act, 1948 (MWA):** The Act provides for fixation, review, revision and enforcement of minimum wages in respect of 'scheduled employment'. The Act is aimed at preventing workers from being exploited. The Act does not discriminate between male and

female workers for wages. The minimum wages can be fixed in the form of a time rate or a piece rate with a guaranteed time rate and an overtime rate. It is mandatory on the part of the employers to pay minimum wages. The shortcomings of this Act are that while this Act is observed by large and medium units, small units evade the provision. Another shortcoming relates to ensuring payment of fair wages to workers. As a result, not only the Act could not be enforced in rural areas, the entire agricultural sector employing 50 percent of workforce is left out of the ambit of this Act denying them the payment of even the minimum wage stipulated under this Act.

3) **The Payment of Bonus Act (POBA), 1965:** The Payment of Bonus Act (POBA), envisages a scheme of sharing the gains of industry between the employer and the employees. The Act applies to all factories defined under the Factories Act, 1948, and all establishments wherein twenty or more persons are employed on any day during the accounting year.

4) **The Equal Remuneration Act, 1976:** The Equal Remuneration Act (ERA), applies to all establishments whether belonging to the public or the private sector. It envisages a duty on the part of all employers to pay equal remuneration to men and women for doing the same work or work of similar nature.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) How is an 'organised sector' unit defined in India?

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2) What are the two amendments made to the Factories Act, 1948?

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3) On what grounds is the Factories Act criticised?

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4) In what way the Contract Labour Act, 1970 has become important in the current times?

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5) What is the rationale behind the Trade Union Act, 1926?

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6) Identify the strength and weakness of the ID Act, 1947?

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7) What is the major shortcoming of the Minimum Wages Act, 1948?

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4.4 SOCIAL SECURITY LAWS

Social security is the protection which society provides for its members against the economic and social distress. The State bears the primary responsibility for developing appropriate systems for providing protection and assistance to its workforce and their families.

4.4.1 Organised Sector

In India, social security is treated as part of labour law. The principal social security laws enacted are the following: (i) The Workmen's Compensation Act (WCA) 1923; (ii) The Employees' State Insurance Act (ESIA) 1948; (iii) The Employee' Provident Funds (and Miscellaneous Provisions) Act (EPFA) 1952 [including the Employees Pension Scheme (EPS) 1995]; (iv) The Maternity Benefit Act (MBA) 1961; and (v) The Payment of Gratuity Act (PGA) 1972.

1) **The Workmen's Compensation Act (WPA) 1923:** The Act provides for payment of compensation to workmen and their dependants in case of injury and accident (including certain occupational diseases) arising out of the course of employment resulting in disability or death. The Act covers persons employed in factories, mines and plantations and certain categories of railway workers, workers of mechanically propelled vehicles, construction works and certain other hazardous occupations. The Act suffers from poor implementation due to administrative difficulties.

2) **The Employees' State Insurance Act (ESIA) 1948:** The ESIA is the principal social insurance law in India. It applies to all workers in factories. The Act provisions an 'employee state insurance scheme' (ESIS) administered by the 'Employees State Insurance Corporation' (ESIC), an autonomous body. The coverage of the Act has been extended to shops, hotels, theatres, restaurants, and cinema and provides for medical care and cash benefits in the event of the death of a worker. The members of the deceased family of the insured persons (for permanent disablement and widow of the deceased) receive free and complete medical care for life.

3) **Employees' Provident Funds (and Miscellaneous Provisions) Act [EPFA] 1952:** The Act provides for compulsory contributory provident fund, including pension and insurance, for employees in factories and other establishments employing 20 or more persons. The Act provisions for three schemes viz. (i) Employees' Provident Funds Scheme, 1952, (ii) Employees' Deposit Linked Insurance Scheme, 1976 and (iii) Employees' Pension Scheme (EPS), 1995. The EPS, 1995, aims at providing economic sustenance during the old age and coverage for survivors. Under the EPS, pension at the rate of 50 percent of last drawn pay is payable to the employees on superannuation after completion of 33 years of contributory service.

4) **Maternity Benefit Act (MBA) 1961:** The Act aims to protect the earnings of women employees for a specified period of time both before and after child birth. The benefits under the Act are payable under three situations viz. childbirth, miscarriage and sickness arising out of pregnancy. Like other social security laws, the MBA also imposes

unilateral responsibility on the employer to pay maternity benefit to women employees covered. This Act has been amended in 2008 to provide for extension of the provisions of the MBA to women workers employed in shops and establishments employing 10 or more workers. An amended Maternity Benefit (Amendment) Act, 2017 extends certain benefits to adoptive mothers and provides entitlement of 12 weeks of maternity leave from the date of adoption.

5) **The Payment of Gratuity Act (PGA) 1972:** Gratuity is a benefit payable to the employees on superannuation from the service. Regulated by the PGA, it is a protection for organised sector workers working in factories, mines, plantations, shops and establishments, etc. employing 20 or more persons.

4.4.2 Unorganised Sector

The overwhelming majority in India's labour force works in the unorganised or informal sector, with low earnings and high social insecurity. Only 8 percent of India's labour force enjoy protection and social security of the organised sector. Realising this glaring lacunae, the GoI constituted a National Commission for Enterprises in the Unorganised Sector (NCEUS) in 2004. Following its recommendations, the government has enacted the Unorganised Workers Social Security Act in 2008. The Act stipulates formulation of welfare schemes for unorganised sector workers on matters relating to: (i) life and disability, (ii) health and maternity benefits, (iii) old age pension, etc. Various Schemes have since been formulated by the Government. These are: (i) Indira Gandhi National Old Age Pension Scheme, (ii) National Family Benefit Scheme, (iii) Janani Suraksha Yojana, (iv) Aam Admi Bima Yojana, (v) Rashtriya Swasthya Bima Yojana (a smart card based cashless health insurance scheme including maternity benefit) and (vi) Janashree Bima Yojna. Besides these, the government has also launched two more social security schemes for all citizens including unorganised workers. These are: Atal Pension Yojna and Pradhan Mantri Jeevan Jyoti Bima Yojana.

Shops and Establishments Act (SEA): While the above schemes are launched by the central government, there is a 'Shops and Establishments' legislation in India. Different states have formulated their laws applicable to 'shops and establishments' more or less on similar lines. Most workers who are employed in shops and establishments are in the unorganised sector (or informal sector) although there are certain larger establishments like motor transport companies, insurance companies, etc. Thus, the SEA covers larger as well as smaller shops and establishments.

4.5 RECENT LABOUR REFORM MEASURES

In a recent survey, medium-sized formal sector manufacturing firms reported labour regulations to be a significant barrier to growth specifically the ‘dismissal norms under the Industrial Disputes Act’ and the cumbersome nature of compliance with labour regulations. The multiplicity of labour laws and difficulty in complying with them has always been cited as an impediment to industrial development in India. The Economic Survey, 2016-17 states that at present there are 39 Central labour laws. Such numerous regulations encourage rent-seeking behaviour.

In a major initiative for ensuring compliance and promoting ease of doing business, the government has initiated a number of labour reform measures. Amendments have been proposed to labour laws to align them with the demands of a changing labour market with much of these left for the state government initiatives. Following this approach, individual states like Rajasthan have introduced labour reforms of a nature which removes the stringent provisions of the Act to make it easy for investors to do business. These fall in three labour legislations viz. the Industrial Disputes Act, Factories Act, and Contract Labour Act. For instance, Section 25 K of the IDA (regarding government permission required for retrenchment of workers) has been modified to raise the ceiling of number of persons employed to 300 workers. Likewise, Section 25 N of the IDA (requiring 3 months notice for retrenchment) has been modified as ‘every worker retrenched shall be entitled to 3 months average pay as compensation’ for retrenchment [in addition to 15 days payment for every completed year of service]. Earlier, this was ‘three months notice or payment for 3 months in lieu of notice’ and ‘compensation equivalent to 15 days average pay for every completed year of service’. The amendment deletes the provision ‘for payment of wages for the period of notice in lieu of notice’ and modifies it as ‘every worker at the time of retrenchment shall be entitled to an amount equivalent to his three months average pay in addition to the compensation for every completed year of service’. Similarly, Section 2 of the Factory Act has been modified to define a factory as ‘employing 20 or more persons if using power and 40 or more persons if not using power’. The definition of ‘establishment’ under the CLA, 1970 is also modified to make the law applicable to establishments employing 50 or more contract workers (i.e. raising the ceiling from the 20 as per existing provision).

While the above modifications/amendments are the individual states’ initiatives (i.e. by Rajasthan government), the following Labour Reform measures have also been initiated by the central government.

1) The Apprentice Act, 1961 was amended on 18.12.2014 to make it more responsive to industry and youth. An ‘Apprentice Protsahan Yojana’ was launched to support MSMEs in the manufacturing sector to engage apprentices. Government is also working affirmatively to bring a single

uniform law for the MSME sector to ensure operational efficiency and improve productivity while ensuring job creation on a large scale.

2) A unified labour portal scheme called 'Shram Suvidha Portal' has been launched for timely redressal of grievances and for creating a conducive environment for industrial development. Its main features are: (i) unique Labour Identification Number (LIN); (ii) filing of self certified, simplified single online return; (iii) transparent labour inspection scheme by uploading of inspection reports within 72 hours of labour inspection.

3) A digitisation of services to insured persons under the ESIA (under the banner of Panchdeep) to enable the checking of contributions paid/ payable by employers, entitlement of various benefits, status of claims, etc. to integrate all its services so as to curb transaction costs.

4) A digitisation programme of EPF subscribers with allotment of 'universal account number' (UAN) to each member to facilitate direct access to EPF accounts to enable members to view their account and disbursement details online. A minimum pension of Rs.1000 has been introduced for pensioners under the Employees' Pension Scheme, 1995 w.e.f. 1.9.2014.

5) A National Council for Vocational Training-Management Information System (NCVT-MIS) portal has been developed for streamlining the functioning of Industrial Training Institutes (ITIs), Apprenticeship Scheme, and assessment/certification of all NCVT training courses.

6) A National Career Service (NCS) is being implemented as a mission mode project to transform the National Employment Service to provide various job-related services such as online registration of job seekers and job vacancies, career counselling, vocational guidance, and information on skill development courses, internships and apprenticeship.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) State the scope of the Workmen's Compensation Act, 1923.

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2) Under which Act the old age pension needs of workers in factory are covered? What is the extent of coverage?

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3) Which social security legislation covers the smaller service sector establishments?

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4) What specific initiatives have been taken by the state governments in respect of labour reform measures?

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5) Identify the changes made by the Rajasthan government in the ID Act, 1947, indicating how this would amount to 'stimulating the demand for labour'?

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4.6 LET US SUM UP

Making a distinction of organised and unorganised sector workers, the unit has discussed the major labour laws on 'working conditions, employee relations, monetary benefits and social security provisions' for the organised sector workers. Observing that although the bulk of the workforce (close to 92 percent) are in the unorganised sector, no social security measures existed for them for a long time up to 2005, the unit then specifies some of the recent measures taken in this direction to meet their needs. More importantly, since the strict laws on retrenchment of workers that existed in Acts like the IDA, FA and CLA did not provide the required atmosphere for expansion of employment opportunities, the initiatives taken in amending these Acts by state initiatives have been illustrated in the unit. Some of the specific measures recently taken to simplify the administration of the existing Acts, which in their absence was making the whole process extremely difficult for the beneficiaries to access information and benefits, under the existing Acts like ESIA, EPFA, etc. have been specified.

4.7 KEY WORDS

Organised Sector	**:**	Refers to the sector in which employees of units/establishments are covered by laws of social security, conditions of work, payment norms, etc. Its opposite counterpart is the large unorganised sector where no such legal provision applies in the workers interest.
Unorganised ID Act, 1947	**:**	An Act to safeguard the interest of workers covered by the FA 1948 which defines a manufacturing unit as a 'factory' depending on the number of workers employed. In particular, the Act provides safeguard against untimely retrenchment from employment by the employer.
WC Act, 1923 & TU Act, 1926	**:**	WC Act is a legislation of 'social security' for the organised sector workers. TU Act is a legislation for providing a leverage in bargaining with the employers by allowing registration of workers' unions i.e. it is an Act meant to maintain 'employee relations' in situations of perceived exploitation of workers by the management. The two Acts are notable for being among the oldest of the legal legislations – the others having been enacted after the 1930s.

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3) Chatterjee U, Murgai R and Rama M (2015). *'Job Opportunities along the Rural-Urban Gradation and Female Labour Force Participation in India,* Policy Research Working Paper 7412, World Bank.

4) Jain, A.K. (1980). *'Labour Policy in the Five Year Plans in India'*, Indian Labour Journal, Vol. 21, No. 2, February.

5) Saini, D.S. (2009*). 'Labour law in India; Structure and Working'* In P. Budhwar and J. Bhatnagar (eds.), *Changing Face of HRM in India,* London: Routledge, 60-94.

4.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) For EMI, an organised sector unit is defined as 'all units in the public sector irrespective of their employment size' and 'those units in the private sector employing more than 25 persons compulsorily and voluntarily if employing 10-24 persons'. For ASI, an organised sector unit (factory) is defined as 'manufacturing units employing 10 or more persons if using power and 20 or more persons if not using power'.

2) The first amendment was in 1987 consequent to the Bhopal gas tragedy to strengthen the safety provisions and penalty for their violation. The second amendment was in 2005 and was to allow women workers to work in factories with safeguards instituted.

3) For not covering unorganised sector units and smaller factories/ units/establishments.

4) There has been an increase in the proportion of contract workers from about 12 percent in 1999 to 25 percent in 2010. This has made it acquire a new importance in the globalised economic atmosphere of current times.

5) The rationale is to provide immunity to registered trade unions and its members from withdrawing labour from exploitation and use the potential offered as a leverage in the bargaining process.

6) Its strength is that not even a single worker can be retrenched without the permission of the labour commissioner. The same clause has now become its weakness in so far as the Act has become a stumbling block in creating demand for labour.

7) It is not effective in implementing the Act to the large agricultural sector in the country. Even in urban areas, the smaller units evade the application of this law.

Check Your Progress 2

1) The Act covers persons employed in factories, mines and plantations and certain categories of railway workers, workers of mechanically propelled vehicles, construction works and certain other hazardous occupations.

2) The EPFA 1952 covers the old age pension needs of factory workers, including workers in other establishments employing 20 or more

workers. The pension is paid at 50 percent of last drawn pay wherever full service defined as 33 years is rendered.

3) Shops and establishments Act.

4) Rajasthan has made amendments in IDA, FA and CLA. The modification made includes: an increase in the ceiling of number of persons employed for factories covered under the IDA for seeking permission for retrenchment from 100 to 300; definition of factories under the FA to mean units employing '20 or more if using power' and '40 or more if not using power'; and CLA being applied for 'number of contract labour engaged' raised to 50 from 20.

5) Increasing the number of workers under the ID Act on retrenchment to apply makes it easier for smaller units to close down in cases of economic unviability of the unit. Since investors' sentiments is important for new units to come up and the old ones to be able to exit, without which the growth process would get stifled, this amendment is expected to boost the employment generation prospects particularly in the micro/small units sector.

BLOCK 2
AGRICULTURAL SECTOR

BLOCK 2 AGRICULTURAL SECTOR

Block 2 of this course is on 'Agricultural Sector' in India. It deals with four broad areas viz. (i) Performance of Agricultural Sector, (ii) Agrarian Relations and Market Linkages, (iii) Capital Formation and Productivity and (iv) Agricultural Policy. The four areas are distributed over Units 5 to 8.

Unit 5 is on '**Performance of Agricultural Sector**'. It begins with a brief review of the 'performance in agricultural sector in India' with a thrust on 'post-reform years'. Impact of 'green revolution' and the problems of the Indian agricultural sector are explained. The inter-dependence between agriculture and industry is discussed.

Unit 6 is on '**Agrarian Relations and Market Linkages**'. It covers various issues like: (i) changes in agrarian relations over time, (ii) tenancy status and (iii) types of markets. The various 'constraints and linkages' of the different types of markets is explained.

Unit 7 is on '**Capital Formation and Productivity**'. The unit begins with the concepts of productivity like COR and ICOR. Determinants of 'private investment' is then explained. Measures required to increase 'agricultural productivity' is discussed. Critical issues continuing to hinder the growth of agricultural sector are finally outlined.

Unit 8 is on '**Agricultural Policy**'. The unit begins with an outline of the 'objectives of agricultural policy'. Various 'instruments of agricultural policy' are then explained. Recent agricultural policy reforms are also discussed.

UNIT 5 PERFORMANCE OF AGRICULTURAL SECTOR[*]

Structure

5.0 OBJECTIVES

After reading this unit, you will be able to:

- state the importance of agriculture sector in stimulating the overall economic growth of an economy in general;
- outline the performance of Indian agriculture in terms of its overall growth;
- explain the transformation of Indian agriculture from its traditional to the modern phase during the 1960s to 1990s;
- identify the problems of Indian agriculture which have continued to hamper its performance;
- describe the theoretical rationale for the relationship between agriculture and industries; and
- indicate the inter-dependence of agriculture with industry along with the intricate inter-relationship between the three major sectors of the economy.

5.1 INTRODUCTION

The importance of agriculture sector in the Indian context can be understood from the fact that it continues to be the key for poverty alleviation, employment

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[*] Dr. Tarun Manjhi, Assistant Professor, SRCC, Delhi University

generation and an important source of foreign exchange earnings. Being the main source of employment and livelihood for close to 50 percent of the Indian labour force, agriculture continues to be the backbone of Indian economy. Although the contribution of agricultural sector to total GDP of India is declining over time, it continues to occupy its important place in the economy because of its linkage with the economic activities in the secondary and tertiary sectors of the economy. It also plays an important role in the determination of growth rate of economy as it affects the overall aggregate demand. There is a close linkage between aggregate demand and aggregate output i.e. if agriculture generates more income for rural population, their demand will go up for the products of other sectors and thus contribute to the total demand in the economy going up. There is thus an interdependency between the agriculture, industry and the services sectors, which will ultimately determine the overall GDP growth rate. The importance of agriculture in India can also be gauged from the fact that as per the Census report of 2011, around 68 percent of total population live in rural areas and agriculture is the main source of livelihood for most of them (i.e. for about 62 percent of rural population as per Agricultural Census, 2011). However, the agricultural sector continues to be plagued by innumerable number of problems hampering its growth potential from being realised. This has in turn kept the potentials of the industry and services sectors also stifled from being realised.

5.2 AGRICULTURAL SECTOR IN INDIA

There has been a consistent decline in the share of agricultural sector's GDP of India from the 53 percent in 1951 to about 14 percent in 2014. As a consequence, the share of industries and services sectors has increased from 17 percent to 26 percent and from 30 percent to 60 percent (over the period of 1951 to 2014) respectively. The main reasons behind the decline in the share of agricultural sector in total GDP are: (i) traditional means of cultivation, (ii) dependence on monsoon, (iii) small land holdings, (iv) low productivity, (v) reduced subsidy in the post-reform years of 1990s, (vi) low skill levels of farmers, (vii) inadequate investment in infrastructure necessary for better performance of agricultural sector, (viii) price volatility, etc. Another means of looking at the relative performance of the three different sectors is to consider the growth rates in GDP measured at constant prices. Figures in this respect shows that over the period 1951-2011, the primary sector grew at an annual average of 2.8 percent while the secondary and the tertiary sectors have both grown at an annual average of 6 percent (Sen & Dreze, 2013). Thus, the decline in the share of agricultural sector to GDP is not only due to the slow growth of agricultural sector itself but also due to the relative faster growth of secondary and tertiary sectors.

Although there has been a decline in the share of agriculture to total GDP of India, the production of food has increased by close to 6 times over the period 1951-2018. Specifically, it increased from 51 million tonnes (MT) in

1951 to about 285 MT in 2017-18 (Table 5.1). Production of milk has increased by more than 10 times (from 17 MT to 176 MT) over 1951-2018 and of fish by more than 10 times (from 0.8 MT to 8 MT) over the period 1951-2012. Production of eggs has also increased steeply from about 2 billion in 1951 to 95 billion in 2018. Due to these developments, India has transformed itself from a food importing country to a food self-sufficient country in spite of a huge increase in its population (more than 3 times over the period 1951-2018). The credit for attaining self-sufficiency in food production goes to different phases of the Green revolution in India which started in the mid-1960s. By the early 1970s, India had achieved a huge jump in the production of wheat and rice due to the adoption of High Yielding Variety (HYV) seeds and shift to scientific cultivation from traditional cultivation. The 'operation flood' (production of milk) and Blue Revolution (production of fish) have also contributed in attaining self-sufficiency in production of food in India.

Table 5.1: Increase in Food Production and Population in India:1951-2012

Items/Years	1950-51	1970-71	1990-91	2011-12	2017-18
Food Grains (MT)	51	108	176	259	285
Milk (MT)	17	23	54	127	176
Fruits & Vegetables MT)	-	-	85	221	-
Fish (MT)	0.8	1.8	3.8	8	-
Eggs (billion)	2	8 (1973-74)	21	60	95
Population (millions)	361	548	846	1210	1316

Source: Agricultural Statistics at a Glance, Government of India, different years.

5.2.1 Post-Reform Years

High fiscal deficit was one of the factors which forced the Indian government to forgo the inward looking policies of import substitution and adopt an outward looking policy of export promotion for economic advancement. Reduction in fiscal deficit was one of the conditions imposed by the IMF (International Monetary Fund) while extending the bailout package in the early 1990s. There are mainly three ways through which any government can reduce its fiscal deficit. These are: (a) increase in tax revenue by either levying higher taxes or by bringing more people into the tax net, (b) reduce government expenditure and (c) reduce transfer payment like subsidies. Out of these three measures, the government relied more on squeezing transfer payment by reducing subsidy to agriculture sector as the first two measures were feared to hamper economic growth by reducing the aggregate demand in the economy. There was adverse impact of reduction in subsidy to agriculture since it resulted in increase in cost of production of food grains on the one hand, and a proportionate increase in the prices of food and non-food items on the other, in the post reform period. In other words, on the one hand there was increase in cost of production, while on the other, the return on agricultural produce became uncertain due to volatility in international price of agricultural products after the globalisation of Indian economy. Thus, the already uncertain situation in the Indian agriculture sector due to its dependence on monsoon was compounded by its exposure to the forces of international price pressures, raising the level of uncertainty faced by the sector further more.

As a result, the growth of agricultural sector witnessed steep decline in the post reform period. The Eleventh Plan (2007-12) reported that the growth of agricultural sector declined from an average of 3.5 percent per year during 1982-97 to 2 percent for the period 1998-2005. This decline was in almost all the states and its effect spilled over to include the allied sectors like fisheries, horticulture and livestock. Although, growth rate of agriculture sector in India between 2004-05 to 2010-11 was 3.5 percent, it was much below the targeted growth rate of 4 percent in most of the five year plans (i.e. 9th, 10th and 11th) in the post-reform period. The growth rate of agriculture in more recent years is estimated at just about 1.1 percent in 2015-16 mainly because of two consecutive droughts in the years 2014 and 2015 but also because of other problems (i.e. volatility of prices and reduction of subsidy and public expenditure).

5.3 TRADITIONAL CULTIVATION TO MODERN CULTIVATION

In mid-1960s, the Government of India realised that she should attain self-sufficiency in food production because of its geo-political compulsion. During this time, India devoted lot of resources in fighting a war with China (in 1962), Pakistan (in 1965) and faced two consecutive droughts (in 1965 and 1966). Apart from these, USA threatened India to stop its wheat export (under the scheme PL480) because of India’s stand on the Vietnam War which was against the USA. PL480 was an agreement between India and USA under which India was receiving wheat from USA at subsidised rate in the form of food aid. All these events compelled India to resolve for avoiding a situation of food crisis as a matter of extreme priority. The government took the decision to import the HYV (High Yielding Variety) seeds from Mexico which had been developed by the Mexican scientist Norman Borlog. It was modified to suit the climatic conditions of India. As a result of this initiative, India attained self-sufficiency in production of wheat in the first phase of its implementation (1966-72) which has since come to be recognised as a period of ‘Green Revolution’ in India. In the successive phases of its implementation, India also attained self-sufficiency in the production of Rice (the second phase, 1973-80) and in Milk, Fish, Eggs, etc. (the third phase, 1981-90).

5.3.1 Impact of Green Revolution

Although India attained the much needed goal of producing enough food grains for its population, it also resulted in the widening of income inequalities, particularly in rural inequality, causing regional imbalances in India. Big landlords and farmers benefited a lot from the Green Revolution by virtue of their large land ownership which was required for the capital intensive cultivation of the HYV seeds. While this yielded high income for them, small famers and landless labourers in rural areas did not benefit in any way which caused steep income inequality in the rural areas of some states. The Green Revolution in India was mainly concentrated in the states of Punjab, Haryana, western UP and some parts of Tamil Nadu. Therefore, all these regions benefited much from the Green revolution while the rest of India remained untouched and hence caused regional imbalances in growth and income. In sum, therefore, the impact of green revolution on India can be stated to have resulted in the attainment of: (i) self-sufficiency in production of food; (ii) shift from traditional means of cultivation to scientific cultivation; (iii) increase in productivity of crops; and (iv) increase in income of farmers; but at the cost of increase in income inequality and regional imbalances.

5.3.2 Problems of Indian Agriculture

The foregoing sections reveal that even though we achieved self-sufficiency in food grains, and have now become food exporters, it is a fact that in terms of productivity levels we have much lagged behind. This is mainly because the Indian agriculture has continued to suffer from certain problems. These are as follows.

Irrigation: Indian agriculture is still dependent on monsoon because of inadequate availability of irrigation facilities like tube wells, canals, etc. which are very much required for controlled irrigation of crops. In the absence of such facilities, there have been loss of crops either because of floods or drought. There is no arrangement which channelise excess water from one area to the other which is water deficit and hence it ultimately results in the loss of agricultural produce at local and national level.

Inadequate Investment: Investment by government and corporate sector in Indian agriculture is very low due to which there is inadequate infrastructure much required for better performance of the sector. In the absence of adequate storage and cold storage facilities, there have been much loss of harvested crops. If harvested crops are not properly stored, it would be eaten by pests or it can perish by rain or moisture causing loss to the economy. Investment by corporate sector in agriculture is negligible due to factors of uncertainty on the return on investment. Of late, the return on investment in agriculture have become uncertain not only because of yield but also because of price volatility in international market in the post-reform period. This factor of uncertain returns could dissuade private investors contributing to the low investment levels in the sector.

Low Investment in Agricultural Research: In spite of huge significance of agriculture for our economy, there is very low increase in investment in agricultural research over the years (it has increased from 0.25 percent of GDP during 1981-83 to 0.4 percent of GDP during 2012-14). Low expenditure on R & D in India is one of important factors because of which there is low productivity of crops in India. In the absence of proper research based inputs, farmers are not aware of soil suitability for production of specific crops. They also do not know the appropriate proportion in which inputs like fertilisers, pesticides, weedicides, etc. should be used for achieving higher agricultural output without the accompanying environmental damage. Further, because of low investment in agricultural research, there is almost negligible innovation in the Indian agricultural sector. In the absence of scientific cultivation, there is lower output as the potential of inputs cannot be fully realised.

Fragmented Landholdings: The ownership of land in India is highly skewed in favour of few households who are big landlords. Most of the rural households in India are either landless or own less than two acres of land. With division of family, over a period of time, the successive size of landholdings have become smaller, even for medium and large land holding families, thus making them unsuitable for scientific cultivation. According to the Agricultural Census 2011, 67 percent of landholdings in India were with marginal (less than one hectare) landholdings and 18 percent were with small (one-two hectare) landholdings. Large holdings (more than ten hectares) were only 0.7 percent.

Absence of Proper Training and Finance: Most of the farmers are illiterate and are without the required training for scientific methods of cultivation. This results in low productivity of crops. Further, although Government has made it compulsory for bank to lend 40 percent of their total credit to the primary sector and institutional credit has increased during last one decade, with the Kisan Credit Card (KCC) scheme providing short term loan to farmers at 4 percent rate of interest, many farmers in India are unable to benefit from it. This is because bulk of the small and marginal farmers' community are illiterate and cannot fulfil the requirements for availing bank loans who generally prefer to lend against some collateral. Hence, most of the small farmers in India avail loan from local money lenders because of convenience. They end of paying huge interest on loans taken and in case of crop failure, it results in huge pressure on such poor farmers who get caught in debt trap.

Marketing: Although Government announces Minimum Support Price (MSP) for some agricultural products and there is also some organised Mandis for selling food grains, most of the small and marginal farmers are unable to sell their produce in these APMC (agriculture produce marketing committee) Mandis. They end up selling their produce in local market without knowing the actual price of their produce in the market. Sometimes, there are 'distress sale' in which farmers' harvest are sold at a price lower than even their cost.

Soil Erosion: Indian agriculture suffers from the problem of soil erosion by flood and wind because of deforestation which reduces availability of fertile land for cultivation of crops. This can be prevented by scientific deforestation and afforestation practices.

Excessive Use of Fertilisers and Pesticides: Farmers use fertilisers and pesticides for growing crops without caring about degradation of soil fertility. This has resulted in depletion of soil fertility levels and reduction in productivity of crops. Productivity of almost all Indian crops is less than world average. Such problems can be solved by promoting the use of organic manures both for enhancing and preserving productivity of soil and crops.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) State the importance of agricultural sector in determining the overall growth rate of the economy. What has been the trend in the contribution of agricultural sector to the overall GDP of India?

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2) Relative to the secondary and the tertiary sectors, what has been the growth rate in the Indian agricultural sector over the recent years of 1999-2014? What has agricultural sector lagged behind in this regard?

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3) What was the effect of reducing subsidies to agriculture in the post-reform years?

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4) What was the extent of decline in agricultural growth consequent to the reduction of subsidies in the post-reform years?

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5) How would you summarise the impact of Green Revolution on India?

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6) What are the problems from which Indian agriculture continues to suffer even now despite our having achieved self-sufficiency in food and having emerged as food exporter?

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5.4 RELATIONSHIP BETWEEN AGRICULTURE AND INDUSTRY

Early phase of economic development is characterised by large section of population who are poor, less educated and live in rural areas for their survival. The significance of agricultural sector in economic development was first emphasised by 'Physiocrats' (the group of French economists prior to Adam Smith), before the emergence of classical economists. The physiocrats believed that only the agricultural sector can produce economic surplus over and above the cost of production. Later, the classical economists also acknowledged the significance of agriculture development in overall development by linking its development to other sectors of economy. However, the classical economists did not make any difference between growth and development i.e. they assumed that if there is growth there will naturally be development. But since it is important to enhance the income level of households in rural areas to create demand for industrial produce for overall economic development, there was a need to synthesise the development of both the agricultural and the industrial sector simultaneously.

The 'big push' theory propounded by Rosenstein Rodan (1943) talked about the simultaneous expansion of production, employment and consumption in all sectors of the economy for removing the obstacles in the process of economic development. Such a strategy required the attainment of 'balanced growth' of all interrelated sub-sectors within agriculture and industry. The 'big push' approach will help in solving the problem of poverty in rural areas and also increase the ability of agricultural sector to supply capital for industrial expansion through savings of households in rural areas.

Lewis (1954) propounded that there is a huge reservoir of labour in developing countries and most of these labour are employed in agricultural sector where their marginal productivity is close zero. Therefore, low paid labour employed in agriculture sector will migrate to modern (industrial) sector because of wage differential. Marginal productivity of labour in industrial sector will be high because of higher investment and technological innovation which will further lead to capital formation due to increase in savings and capital surplus. This will enhance the capacity of industrial sector to hire more labour. The process of hiring labour by industrial sector will stop at a point when the supply of labour becomes wage-inelastic i.e. where the wages in agriculture and industry nearly equal each other. This theory was criticised on the ground that there will be reduction in agricultural output as and when there is migration of labour from the agricultural sector on a large scale. This view was countered by the alternative view that at the developing stage of an economy, there is large scale migration of labour from rural areas to urban areas due to distressed labour condition and migrants to urban areas end up with jobs in the urban informal sector due to the limited capacity of industrial sector to absorb the surplus labour released from agricultural sector in large numbers.

Strengthening the argument of Lewis, Fei and Ranis (1961) explained a three phase linkage between agriculture and industries. In the first phase of development, migration of surplus labour from agriculture sector to industrial sector will not cause any adverse impact on agricultural output. In the second phase, when the labour migration from agriculture sector reaches a point where there is negligible surplus labour, the marginal productivity of labour in agriculture sector would start rising, and if the labour migration continues beyond this point, there would be a decline in the output of agriculture sector. Such a point was called as the Lewis's turning point. However, even at this stage, there will be continued migration of labour from agriculture sector to industries because of higher wage in industrial sector. When the wage in the industrial sector becomes equal to that in the agricultural sector (a stage of third phase of development), further labour transfer and the resulting growth of the economy will depend on technological progress and development of infrastructure in the economy i.e. the latter becomes the necessary conditions for the continued absorption of labour released from the agricultural sector by the industry. Thus, migration of labour from agriculture to industries will result in reduction of output in the agricultural sector only when the marginal product of labour in agriculture sector is either zero or negative and not before (Schultz, 1964).

Schultz also maintained that the total output in an economy can be increased by utilising the surplus labour of agricultural sector in the industrial sector under certain conditions. These are: (i) a situation in which there is migration of labour from agriculture sector to industrial sector without reduction of output in the agriculture sector; and (ii) a situation in which the labour requirement of both the sectors is simultaneously met as a result of the complementary forces working to mutually support both the sectors of the economy. Schultz advanced the theory of 'human capital' by studying the age-earning profile of migrants to indicate that education would transform unskilled labour to skilled labour to face the challenges of exploitation of labour by the capitalist class. Jorgenson (1961) pointed out that if there is no rapid change in technology employed in agriculture, it cannot produce surplus food, or release its surplus labour, in a fruitful manner. Therefore, the message of Schultz and Jorgenson is that to achieve sustainable growth of both the sectors, simultaneous growth in both the sectors are required. The argument put forward by Schultz and Jorgensen provides an important link between the Lewis's and the Fei and Ranis interpretations validating the 'big push and the balanced growth approach' suggested by Rosenstein-Rodan for a harmonised development strategy that needs the focus on both the agriculture and industry. Therefore, government should give priority to agriculture development by strengthening linkages between agriculture and the rest of the economy. In other words, the 'technological cycle' i.e. infusion of technological advances gained during the phase of industrialisation must be ploughed back to agriculture to complement the process of development in a perpetuating manner. In fact, the current focus of developed countries to direct their efforts towards a renewed technological infusion to their agricultural sector bears testimony for the need to infuse technological developments of industry and services sectors back to the agricultural sector in this regard.

5.4.1 Interdependence between Agriculture and Industry

Kuznets summarised the contribution of agricultural sector to economic development in the following words:

- produces food and raw materials;
- creates market for goods and services produced by the secondary and tertiary sector;
- supplies labour and capital to the manufacturing and services sectors; and
- earns foreign exchange through trade.

There is thus a very close relationship between agriculture, industries and the services sectors (Fig. 5.1) with the performance of the agricultural sector playing an important role in providing food, raw materials, fibre and labour for the development of industries and services (Rosenstein-Rodan, 1943). This reinforces the interdependency of agricultural sector with the industrial and services sectors. For instance, agriculture provides the raw materials to industries and uses the finished products of industries like tractors, threshers, pump set, fertilisers, pesticides, etc. for production of food grains and raw materials. Industries use the raw materials supplied by agriculture for the production of several kinds of goods sold in the market. Likewise, the agricultural sector uses services like banking, insurance, marketing, etc. provided by the tertiary services sector which, in turn, creates demand for agricultural produce. The important aspect of such an interdependence is that the finished product of one sector is used as input by the other sector with the growth of one sector mutually influencing positively the economic activities of the other sectors.

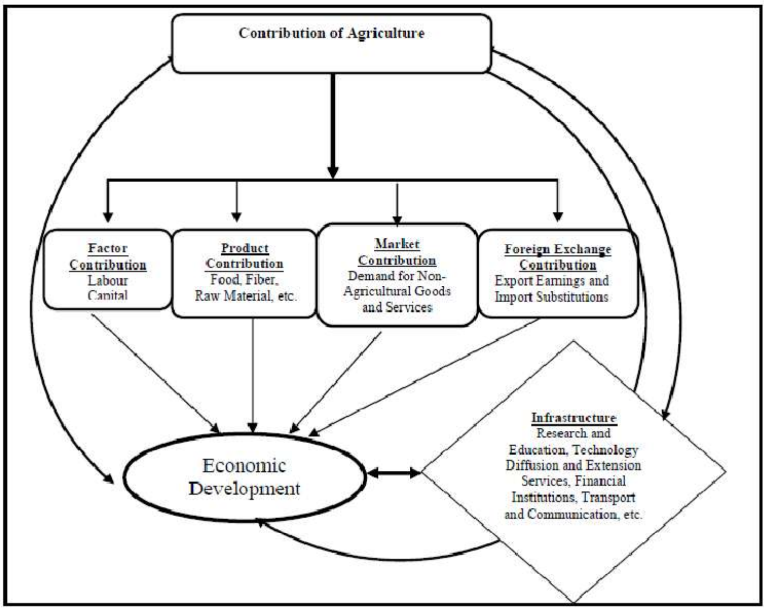

Fig. 5.1: Inter-linkages between Agriculture and the Rest of the Economy

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) How was the inter-linkage of the different sectors of the economy envisaged by early economic thinkers with that of agricultural sector?

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2) What was the common ground to which the views on 'labour transfer' from agriculture to industries converges from the theoretical insights provided by the prominent contributors to the theme?

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3) Under what conditions, did Schultz proclaim that the trend in the total output level in the economy can be maintaining to be increasing by using the surplus labour?

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4) What was the contribution of Jorgenson to the theoretical understanding on 'sectoral labour transfer' and how do you relate his findings to the present situation in Indian agricultural sector?

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5.5 LET US SUM UP

The unit discusses the performance of agriculture sector in terms of its contribution to the GDP of India, production of food grains and non-food grains and employment generation. While analysing the performance of agriculture in terms of its contribution to total GDP of India is steadily declining to a corresponding increase by the secondary and the tertiary sectors of the economy. However, agricultural sector is still very important as it continues to support the livelihood of maximum households living in the rural areas. The role of the Green Revolution marks for a landmark achievement despite its adverse impact on inequality and regional imbalance.

The agricultural sector in India suffers from various problems like – inadequate investment in creation of infrastructure and agricultural research, uncontrolled irrigation, illiteracy of farmers, fragmented landholdings, soil erosion, etc. which are all obstacles in the realisation of its full potential. There is a very close relationship between agriculture and industry because both sectors are so heavily interdependent that the development of one sector is closely linked to the growth of other sector. The government's efforts should therefore be to formulate policies to foster the growth of all the three sectors in a mutually complementing manner.

5.6 KEY WORDS

Gross Domestic Product (GDP)	:	Refers to the monetary value of all goods and services produced in domestic territory of a country during one financial year.
Green Revolution	:	Refers to the huge jump in production of food grains (wheat) because of adoption of scientific cultivation and use of high yielding variety of seeds, fertilisers, pesticides, etc. during the mid-1960s in India.
Migration of Labour	:	Movement of labour from one place to another for livelihood. If current place of residence is different from the place of birth, then it is called migration (Census).

5.7 SOME USEFUL BOOKS AND REFERENCES

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5.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Growth in agriculture feeds into the requirement of raw material to agro industries. By generating demand for the products of the industrial and tertiary sectors, growth in agricultural sector acts as an important stimulant to the overall growth rate of an agrarian economy like that of

India. In terms of its GDP share, its relative share has fallen from 53 percent in 1951 to 14 percent in 2014.

2) Agricultural sector has grown by an average of 1.2 percent compared to the 6.4 percent in the manufacturing sector and the 8.3 percent in the services sector during the recent period of 1999-2014. The low rate of growth in agriculture is due to factors like: traditional means of cultivation, small land holdings, low productivity levels, reduced subsidy, etc.

3) There was increase in cost of production and the return on agricultural produce became uncertain. The latter was partially due to uncertain production due to dependency on monsoon compounded by volatility in international price of agricultural products.

4) Growth reduced from an average of 3.5 percent over 1982-97 to 2 percent for the period 1998-2005. The decline was across states and allied sector of agriculture.

5) It resulted in the attainment of: (i) self-sufficiency in production of food; (ii) shift from traditional means of cultivation to scientific cultivation; (iii) increase in productivity of crops; and (iv) increase in income of farmers. But all these happened at the cost of increase in income inequality and regional imbalances.

6) The problems are: uncontrolled irrigation, inadequate investment both public and private, poor investment in agricultural research, fragmented landholdings, absence of proper training and finance, poor marketing facilities, soil erosion, excessive use of fertilisers and pesticides, etc.

Check Your Progress 2

1) The inter-linkage between the agricultural sector and the industry and services sectors was envisaged as needed for a 'balanced economic growth'. The surplus in agriculture was expected to provide not only the supply of labour but also capital. The 'big push' was considered to play a very important role in this.

2) The convergence is determined by an interplay of factors like rising marginal productivity of labour in agriculture, stabilisation of wage levels across sectors and the level/pace of new technology development and its absorption. With level of skill playing a crucial role, 'technological development and absorption' has to continually happen, in a perpetual cycle, to result in optimum levels of employment and wages in all the sectors.

3) Under conditions of: (i) transfer of surplus labour from agriculture to industry without reduction in the output level of agriculture; and (ii) the labour requirement of both the sectors should be simultaneously met with the complementary forces (e.g. technology, skill development, etc.)

working favourably to mutually support the growth of agricultural and the industrial sectors.

4) Jorgenson drew the attention to the fact of ‘rapid technological absorption in agriculture’ is a necessary condition to both produce the required levels of food for the economy and also to release the surplus labour fruitfully. What we find in Indian condition today is that the agricultural sector is having surplus labour without yielding the matching productivity levels in its output i.e. low labour productivity when compared to international levels. This is reflective of the violation of the conditions pointed out by both Schultz and Jorgenson.

UNIT 6 AGRARIAN RELATIONS AND MARKET LINKAGES*

Structure

6.0 OBJECTIVES

After reading this unit, you will be able to:

- state the determinants of ‘agrarian relations’ outlining the connotations of its two constituents viz. land tenure and agrarian structure;
- indicate the consequences of changing ‘agrarian relations’ in India;

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- explain the changes in the agrarian structure of India;
- enumerate the major reforms initiated in the 'land tenure system' in India;
- discuss the features of 'agrarian relations';
- describe the concept of share cropping with its advantages and disadvantages;
- analyse the trends in the 'tenancy status' of India;
- differentiate between the various types of agricultural markets; and
- delineate the issues behind 'market constraints' and 'market linkages'.

6.1 INTRODUCTION

Agrarian relations in India have undergone significant changes since independence. Feudalistic system of agriculture was abolished by bringing the Land Abolition Act (1956). This Act made provision for giving the ownership rights to the cultivators. It was an important step towards agrarian reform as it ensured right to the tillers and facilitated private investment in agriculture to boost production and productivity. Since then, a number of changes in agrarian relations have occurred. Some of them are due to government initiatives and some others are due to market forces (e.g. land ceiling, share cropping, land tenancy, contractualisation of agriculture labour, etc.). The present unit describes the main features of agrarian relations in India and examines the market linkages (both goods market and factors market).

6.2 AGRARIAN RELATIONS

Agrarian relations are largely determined by: (i) the land tenure and (ii) agrarian structure. Land tenure refers to relationship of people with respect to land. The relationship can be: (i) either legal or customary and (ii) either for individuals or for groups. It decides how the land is owned, used and transferred. The term 'agrarian structure' denotes a framework of social relationships in which all agricultural activities like production, marketing and consumption are carried out. Both these aspects (i.e. agrarian relations and agrarian structure) are inter-related. The agrarian relations prevailing at a point of time in any country reflects the influence of historical, political, social and economic factors. These relations determine: (i) how and by whom land is cultivated, (ii) what kind of crops can be produced and for what purpose, (iii) how food and agricultural incomes are distributed and (iv) in what way or in what terms agriculture is linked to the rest of the economy. We can understand agrarian relations in terms of how land is linked to labour and capital markets. These relations can change over time due to change in mode of production and agrarian structure.

Agricultural Sector

6.2.1 Land

The term 'land relations' refer to the relationship of people to land. In an agrarian society, access of a person to land resources is not only critical for his livelihood but also for his socio-economic status. The most important form of land relation is ownership of land, which can be in the form of individual or community ownership. Individual ownership means that the land owning person has exclusive right on its use, control and transfer. Community ownership implies that individual members of the community have access to use the land as per the norms and rules set by the community (e.g. common grassland). Apart from ownership, land can also be acquired by a person on rent through the institution of tenancy. Tenancy gives rise to a set of land relations different from ownership. Another form of land relations is with the landless labour who may either not be capable of or willing to be a tenant cultivator. He can work as a labour on other's farm for wage employment. He may be attached labour (regular) or casual labour.

6.2.2 Labour

The term 'agricultural labour' refers to a person who works on another person's land for wages paid in money, kind or share of produce. In case of wages paid in money or wages paid in kind, the agricultural labour does not face any risk of cultivation. However, if the labour is paid wages in the form of share in the produce, he faces the production risk i.e. if farm production declines, his wages will also decline. In India, a majority of agricultural labourers come from the socially deprived groups such as scheduled castes and scheduled tribes. Agricultural labour can be classified into two categories: permanent labour (attached) and casual/contract labour. The attached labour generally works on annual or seasonal basis and gets his wages in cash or kind as per the existing norms. Casual labour is hired on the market-driven wage rates, as and when required, especially during the peak agricultural activities.

Labour relations in agriculture has been changing over a period of time due to various factors like: (i) farm mechanisation and technological change, (ii) farm diversification, (iii) out-migration, (iv) socio-economic transformation and (v) public employment programmes (e.g. MGNREGA, affirmative policies). Rural non-farm employment is expanding and agriculture is undergoing rapid structural changes with the adoption of new technologies. All these changes have also affected the labour relations in agriculture. New form of labour relations has emerged. Earlier attached agricultural labour was the dominant class of agricultural workers. This got gradually shifted first to casualisation and still later to contractualisation of agricultural labour. Now, particularly in agriculturally developed regions, landless labourers prefer to work as contract labour on piece rate basis rather than on causal labour or on time wage basis.

6.2.3 Capital

Capital is one of the key factors of production. Capital relations in agriculture are largely determined by land ownership and tenancy changes. Under the feudal system, cultivators were mere tenants and did not have ownership right on the land they cultivated. However, with the development of money as the medium of payment for labour services, the traditional and customary relations between the landlord and the cultivators changed to pure money relations. Still later, after the abolition of *Zamindari* system, the tenant cultivators got the ownership right to land. This created the capitalist mode of farming under which capital relations in agriculture underwent a significant change. Money lenders emerged as a new class replacing landlords. Cultivators got an incentive to invest in agriculture (in the form of irrigation, modern technology, land development and farm machinery) to increase production, productivity and profit.

In the capitalist mode of farming, demand for external inputs like hired labour, energy and credit increases. Consequently, there is more flow of capital to agriculture. Such relations also make for changes in the relationships of men in production (i.e. transformation in social conditions). For instance, the cultivator does not grow food only to feed himself and the small community but starts producing for the market. He thus gets to face market conditions/risks and technology besides the nature's risks. Emergence of modern agribusiness and changes in labour relations like sharecropping, small-scale capitalist farming, petty commodity producers and contractualisation of wage labour has made significant changes in the agrarian relations in India. Rising share of external inputs and energy intensified production practices has led to declining share of human and animal energy. Investment in labour saving technology has reduced demand for labour in agriculture and increased the outflow of rural workforce to urban areas.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What are the two determinants of 'agrarian relations'? What do they connote?

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2) How is the term 'agricultural labour' defined?

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3) What are the factors due to which changes in 'labour relations' in agriculture are noticed to come about over a period of time?

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6.3 CHANGES IN AGRARIAN RELATIONS IN INDIA

Since independence, a number of changes have taken place in the agrarian structure of India. Prominent among them are: (i) abolition of intermediaries (zamindars and jagirdars) and conferring ownership on actual cultivators (i.e. land to the tillers; (ii) ceiling on land holdings and distribution of surplus land among small farmers and landless labourers; (iii) protection of the rights of tenants and regulation of rents; (iv) assignment of government waste land (*Bhoodan*) to the poor; and (v) prohibition on alienating land allotted to the poor and the land belonging to tribals. One of the effects of these changes was a shift in the rural power structure from the elite z*amidars* to middle class rich peasants (who earlier used to be tenants of these zamindars). In the post-independence period, new developments like green revolution (GR), commercialisation of agriculture, land reforms, spread of literacy and general awareness, emergence of powerful farm lobbies (in the parliament and state legislatures), etc. contributed to result in a new direction in the agrarian relations of India. The scale-neutral and resource-intensive 'green revolution' (GR) technology has made remarkable success in the regions endowed with assured irrigation facilities like Punjab, Haryana and Western Uttar Pradesh.

6.3.1 Land Tenure System

At the time of independence, there were three types of land tenure: (i) landlord tenure (Zamindari system), (ii) independent single owner tenure (Ryotwari system) and (iii) joint village tenure (Mahalwari System). Under the Zamindari system, the intermediary 'Zamindars' were granted ownership right over land and actual cultivation was done by tenant farmers. It was an inefficient system which did not provide any incentive to the peasants to improve land productivity. There was a long chain of intermediaries between zamindars and cultivators who exploited tenant cultivators and made them impoverished.

Under the Ryotwari system, the actual land tillers were given formal property rights over land. The Ryot was a tenant of the state, responsible for paying revenue directly to the state treasury. Under this system, cultivators had an incentive to make investment in land to improve productivity as they had ownership right. Under the Mahalwari (or joint village tenure system), the village was identified as a unit of assessment. Though an individual cultivator in a village was made owner of the land, the villagers were asked to pay the revenue collectively.

After independence, the land tenure system was reformed with the twin objectives of achieving social justice and economic efficiency. The major changes made in the land tenure system were: (i) abolition of intermediaries; (ii) land ceilings; (iii) consolidation of land holdings; (iv) abolition of forced labour; (v) tenancy legislation; and (vi) cooperative farming. During the 1950s, all the Indian states abolished zamindari system. Those, who possessed cultivable land at that time (including tenants and sub-tenants), were given *riyati* (owner-cultivator) status. These measures brought about major changes in the agrarian structure towards commercialisation of agriculture and commodification of land.

Commercialisation of agriculture means a shift in the agrarian economy from production for consumption (food crops) to production for market (cash crops). Agriculture, which was largely supply-driven during the green revolution period, gradually became demand-driven and diversified more towards horticulture and dairy products. After abolition of intermediaries and assigning land ownership to the peasant-cultivators, land also began to acquire a commodity status. The moneylender, who until then lent keeping a peasant's crops in mind, began to see his land as a mortgageable asset against which he could lend money.

6.4 FEATURES OF AGRARIAN RELATIONS

An understanding of the concept of tenancy system is essential to have an idea of the main features of agrarian relations. Tenancy and its terms and conditions reflect the 'demand and supply' position of agricultural land availability. In a country where land market is rigid and distorted, tenancy arrangements can be made to augment the size of operational holdings rather than owning the land. Therefore, land-leasing can be a viable option for those who have labour and/or capital but do not have land to fully use these resources, and for those who have land but do not want to do farming because of lack of labour or capital, or no interest in agriculture. In this section, we discuss the main features of agrarian relations in India.

6.4.1 Contractual License Arrangements

Contractual license is an arrangement which involves the landowner contracting out all or some farming activities. It may be practiced when the land owner faces shortage of resources such as capital or skilled management for performing farming activities.

6.4.2 Labour Tenancy

In the labour tenancy arrangement, land owner bears all the production cost except for labour cost, which is borne by tenant labour. The share of labour tenant in the produce may range from 20 to 30 percent. This form of tenancy is quite beneficial to those cultivators who do not have adequate family labour to do farming.

6.4.3 Sharecropping

Sharecropping is a form of land tenancy where a tenant farmer cultivates the land for the landlord and the output is shared on some pre-determined basis. It is quite a old practice which runs on trust, patronage and kinship relations. The share is decided mutually by both the parties as per the prevailing norm. It can vary depending upon the sharing arrangement in the cost of cultivation. It is argued that share-cropping provides a better incentive to efficient allocation of labour time since unlike the feudalistic system, it enables the sharecroppers to bargain for a larger share in the produce resulting from an increased application of labour. However, it discourages the share croppers to make investment in agriculture development and productivity-enhancing measures. This is because the land-sharing arrangement being informal, the landlord can withdraw from the agreement any time and the tenant would not be able to recover his return on farm investment. The classical economists postulate that both the sharecropper and the land-owner would shy away from investment resulting in sub-optimal level of output in agriculture. J.S. Mill argues that sharecropping, in due course, would prove to be a big disincentive for investment, as the contractual agreements enable landlords to appropriate the surplus generated by the tenant by employing additional labour inputs on the land.

The sharecropping form of tenancy has several advantages and disadvantages. One of its advantage is that it makes sharing of production risks equal for both the parties providing incentives to the land-owner in a situation when monitoring of labour supply is costly. However, being usually an informal arrangement without a fixed tenure, it discourages both the parties to make farm investment to improve productivity. But with a cost-sharing arrangement, it can encourage the tenant to use modern inputs such as fertilisers, HYVs and irrigation to raise output. This explains why the landlord might bear a fraction of the cost of inputs. The moot point however is that if sharecropping is not an efficient form of cultivation, why has it continued to exist? The most common explanation is that it allows the landlord and the tenant to share the production risk which is quite high in regions where agriculture still depends on the vagaries of monsoon. But with increasing facilities for irrigation and modernisation of agriculture with the introduction of new technologies, and simultaneous reduction in the inherent risk through crop insurance and greater availability of credit, land leasing on fixed rent has become a better option than sharecropping.

6.4.4 Land Leasing

In this arrangement, land owner leases out his land on fixed rent to the tenant for a fixed or variable time period. This is generally preferred by absentee landlords. There is a perception that lease-in is done by land-poor farmers who wants to enhance their farm-size while lease-out is done by the land-rich farmers. Hence, literature on tenancy arrangements generally highlights the exploitation of poor tenants. However, in recent years, reverse tenancy is being practiced in some regions, where small and marginal farmers lease-out their land to the relatively big farmers. Unlike sharecropping in which production risk is shared equally by the owner and tenant, in case of land leasing, entire production risk is shifted to the lessee. Land leasing, especially on fixed term, encourages the lessee to adopt modern technology and farm practices to enhance production and productivity. Households having a limited number of family workers (and/or have fewer assets) are likely to lease-out their land, while those having more assets and higher numbers of farm workers tend to lease-in to get the benefit of economies of scale. Marginal/small farms may find other employment more remunerative than farming and hence may also lease-out their land. There are many advantages of a secured tenancy. They are: (i) it incentivises the lessee to make farm investment; (ii) it removes insecurity from the mind of land owner; and (iii) it helps to develop the land-lease market. It is generally perceived that the power balance under the land leasing system remains in favour of the landowner. However, this is not always true. In fact, in a number of cases, the reverse occurs. It particularly happens where the landowner holds little land and/or capital, while the tenant is a big farmer with access to sufficient capital.

Check Your Progress 2 [answer within the given space in about 50-100 words]

1) What are the three types of land tenure system which were prevalent at the time of independence?

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2) What were the major changes that were introduced in the land tenure system after independence in India?

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3) What were the two measures introduced in the years after independence which helped turn the agrarian structure in India towards commercialisation?

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4) What does the terms commercialisation and commodification of agriculture mean?

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5) In what way sharecropping is better? What are its disadvantages?

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6) What is reverse tenancy?

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7) State the advantages of 'secured tenancy'.

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6.5 TENANCY STATUS IN INDIA

The tenancy status in India has changed during the last four decades. The share of tenant holdings (in the total operational holdings) has declined from 25.7 percent in 1970-71 to 9.9 percent in 2002-03. Since then it has increased to 13.7 percent in 2012-13 (Table 6.1). This share has increased across all categories of farms over the period 2003 to 2013. But its increase is more in the categories of medium (7 percent), semi-medium (7.7 percent) and large size holdings (8 percent) as compared to small size holdings (2.9 percent) and marginal size holdings (3.4 percent). The trend indicates that the capitalist relations in the Indian agriculture have become dominant in recent years. Increase in the non-institutional credit and financialisation of agriculture are pointers to this mode of agriculture in India. The increase in the shares of operational holdings of small, marginal, medium and semi-medium classes (over the period 2003-13) shows that 'reverse tenancy' has become a noticeable phenomenon in India in recent years. Some marginal and small farmers may be better off by leasing out their land while seeking wage employment within or outside agriculture to maximise their incomes by way of rentals as well as wage incomes.

Table 6.1: Tenant Holdings (%) by Category of Operational Holdings

Land Size (in ha)	**1970-71**	**1981-82**	**1991-92**	**2002-03**	**2012-13**
Landless (≤ 0.002	-	-	-	-	2.6
Marginal (0.002-1.00)	27.0	14.4	9.3	9.8	13.2
Small (1.00-2.00)	27.8	17.9	14.9	10.7	13.6
Semi-medium (2.00-4.00)	24.8	15.9	12.2	10.3	18.0
Medium (4.00-10.00)	20	14.5	13.1	7.8	14.8
Large (> 10.00)	15.9	11.5	16.7	13.8	21.8
All	**25.7**	**15.2**	**11**	**9.9**	**13.7**

Source: 70th NSSO Round

Over the period 1971-2013, the proportion of sharecropping in the total lease-in operated area has declined from 48 percent in 1970-71 to 29 percent in 2012-13 while the corresponding area under fixed money has increased from 15 percent to 41 percent (Table 6.2). This has increased the risks of tenant farmers as the landowners do not have any risk of crop failure. Fixed money form of lease-in land is preferred where there exists a significant scope for entrepreneurship. This is because it permits the tenants to capture the returns expected from their own decision-making while protecting the land owners against the possible risks arising from the production decisions of the tenants.

Table 6.2: Distribution (%) of Lease-in Operated Areas by Terms of Lease

Terms of lease	**1970-71**	**1981-82**	**1991-92**	**2002-03**	**2012-13**
Fixed money	15.4	10.9	19.0	29.5	41.1
Fixed produce	11.6	6.3	14.5	20.3	17.0
Share of produce	47.9	41.9	34.4	40.3	28.7
others	25.1	40.9	32.1	9.9	12.9
All terms	**100**	**100**	**100**	**100**	**100**

Source: 70th NSSO Round

6.5.1 Legalisation of Land Leasing System

Restrictive land leasing laws usually make land leasing informal, insecure and inefficient, and as due to absence of legal sanctity, tenants would not have access to institutional credit, insurance and other support services. The restrictive land leasing laws would reduce occupational mobility of the landowners who may want to shift to non-farm employment but would be forced to remain in agriculture due to the fear of losing land if they lease-out and migrate. Therefore, legalisation of land leasing can promote production efficiency, equity, occupational mobility and rural transformation. It would benefit the agriculture in several ways. It would: (i) promote transparent and secured land leasing, (ii) create an incentive for tenant farmers to make investment in land improvement for productivity enhancement; (iii) make possible for the tenant farmers to have access to institutional credit, insurance and other inputs; (iv) encourage the absentee landlords who prefer to keep their lands fallow (due to the fear of losing land right by leasing out their land); (v) result in the better utilisation of available land and labour resources; and (vi) make possible to transfer land from less-efficient farmers to more efficient farmers and thus improve production, productivity and income through crop intensification and diversification. Keeping all these aspects in view, the government has enacted a Model Land Leasing Act *aimed at* liberalising the process of legalising the land leasing system in India.

6.5.2 Landless Agricultural Labour

Landless agricultural labourers are the most precarious and vulnerable workforce in rural India. In general, they suffer from seasonal unemployment, job insecurity, poverty, indebtedness, bondage, inability to get statutory minimum wages, illiteracy, mal-nourishment, lack of access to productive assets, discrimination, lack of social security and inability to form organisation. Although they are covered under the Minimum Wages Act 1948, its implementation is very arduous. Their demand is driven by factors like agricultural productivity, wage rate, crop-season, cropping pattern, cropping intensity, irrigation facilities, size of operational holdings, farm mechanisation, etc. If other things remain constant, their demand is inversely related to minimum wages (MWs). If MWs are raised, the demand for labour may decline, which in turn pushes the market wages down. Market wages would be higher/lower than the MWs depending on whether there is increase/decrease in income (i.e. value added to agriculture or GVA) from agriculture. The increase in income from agriculture would depend upon farm mechanisation, expansion of rural non-farm employment, allocation of government funds to wage employment programmes, unionisation of farm labourers, expansion of economic activities in urban informal sector, cost of living in urban areas, etc. Keeping in view the persistence of poverty, widespread unemployment, lack of access to productive assets and un-sustainability of jobs for landless agricultural labour due to natural shocks, agricultural labourers need effective social security provisions.

6.6 TYPES OF MARKETS: CONSTRAINTS AND LINKAGES

Market is a comprehensive term, which covers many functions such as: (i) procurement, transportation, grading and standardisation; (ii) storing, processing, packing, and (iii) supply of commodities to the end-users. All these activities require integration to reduce the marketing cost, particularly for small and marginal farmers who have less marketable surplus. Production of most crops is localised and harvested in specific season in a limited time period while consumers' demand is widespread across time and space. Agricultural commodities, in particular, are required to be quickly procured, processed and distributed to the end-users so that price stability may be maintained and commodity losses may be reduced. In this context, effective linkage of farmers to the market through promotion of several institutions such as Farmer Producer Organisations (FPOs), contract farming and group marketing is quite essential. There are different types of markets as outlined below.

6.6.1 Goods and Factor Markets

On the basis of agricultural outputs and inputs, markets can be classified into two categories: goods markets and factor markets. Goods markets are those markets in which agricultural products are sold and purchased whereas in factor markets, farm inputs are traded. Farmers need various kinds of inputs to do farming such as seeds, chemical fertilisers, pesticides, farm machines, labour and other services. Effective linkage of farmers with these markets is essential to make agriculture a remunerative venture. For instance, in the absence of effective linkage of farmers to the formal credit market, they are forced to pay a very high rate of interest on the loans taken by them from the informal credit market. One of the reasons for indebtedness among the farmers is due to lack of formal credit to the farmers. Similarly, agricultural goods markets are controlled by a number of intermediaries who artificially create huge gap in what the farmers get and what the consumers pay for the agricultural commodities.

6.6.2 Formal and Informal Markets

Agricultural market can further be classified into formal and informal markets. Informal markets have few regulations and often no taxation. Formal markets, on the other hand, operate using standard weights and measures with transactions which are agreed upon. Further, transaction are based on clearly defined legal frameworks. A majority of small and marginal farmers in India with less quantity of marketable surplus, sell their produce in the informal markets. These are transactions made at the farm gate, roadside sales, village markets and sales made in the urban wholesale and retail markets. Sometimes, petty traders purchase from farmers from their home or farm and then supply it to the urban markets, including regulated mandies. Informal markets require modernisation through legal enforcement of grades and standards. They need information and knowledge network to enable access information related to product quality, price and supply and demand conditions.

Formal markets are characterised by modern value chain system. Through such markets, farmers can get proper signals to allocate their cultivable land for production of various commodities and access support services. To work within the formal markets, they should meet the quality standards. Formal markets consist of both public and private mandies and can be electronically inter-connected. Government has created an electronic trading portal (e-NAM) to integrate various mandies. This is expected to improve market competitiveness and efficiency by: (i) eliminating traders' cartels and price manipulations and (ii) minimising price gaps between what the producers get and what the consumers pay. In such markets, buyers and sellers do not need to interact physically. Trust is reinforced through clearly defined standards and the market transactions are supported by the legal system.

6.6.3 Primary, Secondary and Terminal Markets

On the basis of location, markets are categorised into primary, secondary, and terminal markets. Primary markets include periodic markets or hats and fairs held in rural areas. Many of these markets are now within the purview of the government regulations. The government charges a small fee from each participant for which the markets provide some basic infrastructure for smooth trading. Farmers having little quantity of marketable surplus generally supply their produce in such markets rather than to the big mandies. Secondary markets serve as collection centres and as a place for the assembly of produce by traders who come from distant places. They are usually situated in urban centres (town and cities) well-connected with road and rail transport.

Terminal markets are those where sale of goods to retailers takes place. In these markets, agricultural commodities are finally disposed of to the end consumers/processing units/exports. They are of two types: primary wholesale markets and secondary wholesale markets. Primary wholesale markets are larger in area and attract many retailers. They also serve as transit points to distant small town markets. They are located in important towns near production centres where the producer-farmers bring their produce for sale. Secondary wholesale markets are located at points nearer to resident population.

6.6.4 Market Constraints

Agricultural markets are constrained by: (i) inadequate warehouses, (ii) lack of grading and standardisation, (iii) inadequate transport facilities, (iv) presence of large number of intermediaries, (v) malpractices in unregulated markets, (vi) inadequate market information, (vii) poor access to credit facilities, etc. To improve marketing conditions, the government has enacted a model APMC Act. It is aimed at facilitating direct marketing of agricultural commodities, reducing the multi-layers of intermediates between the producers and the consumers.

6.6.5 Market Linkages

Activities to link farmers to markets adopt either the ‘top-down’ approach (which involves identifying market demand and then seeking a group of farmers to satisfy it) or the ‘bottom-up’ approach (i.e. of identifying farmers to work with and then finding markets to which they could supply). There may be several kinds of linkage of farmers to markets like: farmer to domestic trader, farmer to retailer, linkage through a leading farmer, linkage through cooperatives, farmer to agro-processor, farmer to exporter, contract farming, etc. These categories do not however represent the whole range of market opportunities available to farmers. In India, purchases by government institutions is an important constituent of the formal market. The above stated categories are not always mutually exclusive (exporters can also be agro-processors, agro-processors can also run contract farming operations, retailers may buy from farmers through traders, etc.).

Farmer’s linkages to factor markets may also be in different forms. In case of credit market, most of the credit needs (productive or non-productive) are met through informal sources (e.g. money lenders, input dealers, fellow farmers, friends and relatives). Farmers also have access to institutional credit provided by commercial banks, cooperative banks, regional rural banks (RRBs), etc. Kisan Credit Card (KCC) scheme is one of the most beneficial schemes for farmers for meeting their short-term credit needs at a low interest rate. Effective linkage of farmers, particularly small and marginal ones, to the formal credit markets is essential to provide affordable credit for enhancing private investment in agriculture and to check exploitation of farmers by the unscrupulous money lenders.

6.6.6 Group Formation

To establish effective market linkage, new forms of institutions, such as Farmer Producer Organisations (FPOs), Contract Farming and Group Marketing need to be promoted. Development of farmers groups enables them to make their produce market-orientated. Through FPOs and group farming, they can have: (i) better access to farm inputs, technology and extension services, (ii) reduce transition cost and achieve economies of scale in both production and marketing and (iii) improve their bargaining power in the market. In case of contract farming, both farmers and contracting companies can reduce their market risk by mutually agreeing to sell and purchase the contracted quantity of produce at pre-determined prices. In addition, farmers may get from the contract companies new technology, farm inputs and working capital and expert advice on their usage.

Check Your Progress 3 [answer within the space given in about 50-100 words]

1) State the trends noticeable for its recent setting-in in Indian agriculture.

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2) Distinguish between goods market and factor market.

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3) Enumerate the market constraints faced by farmers in India.

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6.7 LET US SUM UP

Agrarian relations are determined by the land tenure (ownership, tenancy and labour relations) and agrarian structure (production, livelihood and social conditions in agriculture). Agrarian relations in India have undergone significant change since independence. Abolition of Zamindari system, land ceiling, tenancy reforms and protection of rights of tenants are vital agrarian changes that have impacted the agrarian relations in agriculture. Land reforms, green revolution, commodification of land, application of scale-neutral and resource-intensive farm technologies, contractualisation of labour, development of rural non-farm activities and public investment on social sector schemes along with 'affirmative public policies' have given new dimensions to the agrarian relations in India. Tenancy pattern has been gradually shifting from sharecropping to fixed rent leasing system justifying the need for legalisation of tenancy system. Effective linkage of farmers with formal agricultural markets is essential to make agriculture a remunerative and profitable activity. Farmers must get proper market signals for making efficient allocation of land and other resources for production of various agricultural commodities. New forms of institutions such as FPOs, contract farming, group marketing and e-NAM are critical for establishing effective market linkages.

6.8 KEY WORDS

Agrarian Relations	:	Relates to relationship between farmers and landlords on the terms on which land would be used for agricultural activities and how the wages or sharecropping practices would be paid/shared.
Affirmative Action	:	These are policies of the government aimed at helping the marginalised by special schemes to bring them to the mainstream. MGNREGA is an example of this.

6.9 SOME USEFUL BOOKS AND REFERENCES

1) Shepherd A.W. (2007). Approaches to Linking Producers to Markets, Agricultural Management, Marketing and Finance Service, Rural Infrastructure and Agro-Industries Division, FOA Rome.

2) Singh, J.P. (2006). Changing Agrarian Relationships in Rural India, *Ind. Jn. of Agri. Econ. Vol. 61, No. 1, Jan.-March.*

6.10 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) The two determinants of agrarian relations are: land tenure and agrarian structure. The term 'land tenure' relates to relationship of people with land. The relationship can be legal or customary. The relationship decides how the land is used, owned or transferred. The term 'agrarian structure' denotes a system of social relationships in which all agricultural activities like production, marketing and consumption are subsumed.

2) The term 'agricultural labour' refers to a person who works on another person's land for wages paid in money, kind or share of produce.
3) The factors are: (i) farm mechanisation and technological change, (ii) farm diversification, (iii) out-migration, (iv) socio-economic transformation and (v) public employment programmes.

Check Your Progress 2

1) Landlord tenure (Zamindari system), independent single owner tenure (Ryotwari system) and joint village tenure (Mahalwari system).
2) (i) abolition of intermediaries; (ii) land ceilings; (iii) consolidation of land holdings; (iv) abolition of forced labour; (v) tenancy legislation; and (vi) cooperative farming.
3) Abolition of Zamindari system and granting of owner-cultivator status to all those who possessed cultivable land including tenants and sub-tenants.
4) Commercialisation of agriculture means shift in production from food crops to cash crops i.e. production for consumption (i.e. food crops) to production for market. With the granting of titles to land tilled, the tenant now becomes empowered to mortgage it for taking loan/credit. The latter process is referred to as commodification.
5) Sharecropping is considered good since it gives a bargaining option for the tenant. But the arrangement being informal, there is the risk that the landlord may appropriate much of the surplus or renege on his informal agreement. It allows the landlord and the tenant to share the production risks.
6) The concept of tenancy was originally construed as the landlord giving his land on lease to tenant. But in recent times, small farmers are leasing out their land to big farmers. This has come to be recognised as reverse tenancy.
7) It incentivises the lessee to make farm investment. It removes insecurity from the mind of land owner. It helps to develop the land-lease market.

Check Your Progress 3

1) Capitalist relations and reverse tenancy. Fixed money terms of lease has increased and sharecropping has decreased.
2) In goods market, agricultural products are traded. In the factor market, agricultural inputs are traded.
3) Inadequate warehouses, transport facilities, etc. (see Sub-section 6.6.4).

UNIT 7 CAPITAL FORMATION AND PRODUCTIVITY*

Structure

7.0 OBJECTIVES

After reading this unit, you will be able to:

- define the term productivity in agriculture with a distinction on the concepts of 'partial factor productivity' and 'total factor productivity';
- differentiate between the concepts of 'capital output ratio' and 'incremental capital output ratio';
- distinguish between 'public investment' and 'private investment';
- state how both public and private investment in agriculture helps in technical progress;

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- discuss the factors responsible for low productivity in agriculture; and
- describe the issues related to agricultural reforms in India.

7.1 INTRODUCTION

Although the farm sector is relatively more labour intensive than the non-farm sectors and requires less capital per unit of output produced, it also requires substantial amount of physical and human capital to perform various farm operations timely and efficiently. In Indian agriculture, capital formation has made significant contribution during the green and post-green revolution periods. Public investments in agricultural infrastructure (i.e. R&D, extension services, development of markets and storage facilities, etc.), have increased the agricultural growth and induced private investment in land development, groundwater irrigation, farm mechanisation, HYV seeds and chemical fertilisers. More recently, diversification of agriculture towards fruits and vegetables, livestock and other high value crops (HVCs) and increasing marketable surplus of various crops have encouraged the private agri-business companies to invest in agricultural R&D, extension, markets and logistics, contract farming and other farm services. These investments have supplemented the public investment. Against this background, the present unit discusses various issues related to capital formation and agricultural productivity.

7.2 CONCEPTS OF PRODUCTIVITY

Productivity is defined as the ratio of a measure of output to one or more of inputs used in its production. There are two concepts of productivity: partial (single) factor productivity and total (multiple) factor productivity. Partial factor productivity (PFP) is a ratio of the quantity of total output to the total quantity of a single input. For instance, labour productivity measured by dividing the total production of a farm by the number of total workers (or total hours of work) of that farm is a PFP. Since various inputs are used in agriculture (e.g. labour, land, capital, irrigation water, seeds, chemical fertilisers, etc.), PFP can be estimated for any farm input. Most commonly, PFPs measured in agriculture are ‘with respect to’ (w.r.t.) land and labour productivities. Per hectare yield of a crop is known as land productivity which is computed by dividing the total crop production from the total cultivated area under the crop. Similarly, labour productivity is measured by dividing the total crop production from the total number of workers used to produce the output. Keeping the land constant, land productivity can be increased by improving the efficiency which can be achieved by intensive use of other inputs like chemical fertiliser, labour, HYV seeds, etc. It can also be increased by changing the cropping pattern from low value crops to HVCs. Similarly, labour productivity can be increased by improving the human capital and by using modern farm inputs and technologies. Thus, an increase in output, achieved by keeping the input constant or by a reduction in the input used by keeping the output constant, implies an increase in the PFP. PFP can be calculated in terms of physical output or monetary value. For instance, per worker productivity (i.e. average productivity of labour: APL) is given by: APL = Q/ L; where Q = total physical output and L = number of workers. If we multiply Q with the farm harvest price and divide it with number of workers used, we get per worker productivity in monetary value. However, to compare the value of productivity over a period of time, we need to convert nominal values into real values (i.e. express the values at constant prices) using appropriate price deflator. Such a conversion neutralises the effect of price changes. Generally, wholesale price index (WPI) is used to deflate the value of output and the consumer price index (CPI) is used to deflate the value of wages and salaries paid to workers.

An estimate of PFP cannot provide true performance of a resource. For instance, per worker productivity in agriculture can be raised either by improving the quality of human resource (by training and retraining) or simply by reducing labour and using more capital and technology. Total factor productivity (TFP) is therefore a more comprehensive measure of productivity. Various methods have been developed to compute TFP. Before the mid-1990s, most studies estimated TFP growth by growth accounting approach (GAA). The GAA is based on assumptions of perfect competition and constant returns to scale. It also assumes that a decision-making unit (production entity) operates on its production frontier implying that it has 100 percent technical efficiency. Thus, TFP growth measured by the GAA approach is due to technical change and not due to technical efficiency. Parametric and non-parametric approaches, using panel data estimation of TFP, relaxes the assumption of production units operating at 100 percent technical efficiency made by the GAA.

7.2.1 Capital Output Ratio (COR)

Capital-output ratio (COR) refers to the amount of capital required to produce one unit of output. Suppose the rate of investment in an economy is 36 percent of GDP and GDP growth rate is 8 percent. Then, COR is 36/8 or 4.5. It implies that to produce one unit of output, 4.5 additional units of capital is required. We must note that the capital investment created in a year lasts for several years depending upon the expected life of machines. COR may vary from country to country and sector to sector depending upon factors like availability of capital, cost of capital, cost of other inputs such as labour, etc. COR tends to increase as capital becomes cheaper than other inputs over a period of time. COR is determined by a number of factors such as innovation, technical progression, mode of production, types of activities, etc. An increasing trend in COR in a sector implies that the sector has become more capital intensive over a period of time.

7.2.2 Incremental Capital Output Ratio (ICOR)

Another variant of COR is Incremental Capital-Output Ratio (ICOR) which is defined as the ratio between investment in period ‘t’ and the growth in output between periods ‘t’ and ‘t–1’. It is estimated (for agriculture) as:

$$ICOR = \frac{I_t}{Y_t - Y_{t-1}}$$

where I_t = agricultural investment in period ‘t’, Y_t = agri-GDP in period ‘t’ and Y_{t-1} = agri-GDP in period (t-1). Higher the ICOR, lower would be the capital productivity. Analysis of ICOR is useful to estimate level of investment required to attain a specified output level which in turn determines the achievement of the targeted growth rate of economy. Efficient use of capital reduces ICOR and lowers investment requirements for achieving a higher growth rate. Higher ICOR implies not only higher cost of production but also lower profitability and lower marginal efficiency of capital. Agricultural sector growth, among others, depends upon the level of investment, ICOR and the marginal efficiency of the invested capital. Value of ICOR may vary across states and time period. ICOR can be estimated separately for private and public investment in agriculture.

If we look at the trends in ICOR in agriculture over the plan periods from 1982-2014 (i.e. 6th to 12th plan period years), we observe that in case of private investment, ICOR has ranged between 0.8 during 6th/7th plans to 1.3 during the 9th plan and 0.7 during the successive years. The average ICOR of public investment had been 1.2 during the 1980s, 0.8 during 1992-97, 2.5 during 1997-2002 and about 2 during the period 2002-12. For the period 2007-14 ICOR has been estimated as 2.8. During the last several years, gross capital formation (GCF) as percentage of agri-GDP (at 2011-12 prices) has ranged between 17 to 18 percent, while the agricultural growth rate has ranged between 3 to 4 percent. This implies that either the ICOR in agriculture has increased over this period due to either increasing mechanisation or the composition of agricultural investment has changed or agricultural growth is constrained due to demand and supply side factors.

7.3 INVESTMENT IN AGRICULTURE

Agricultural investment can be classified into two groups – public and private investment. Public investment refers to the investment made by the government for the development of agriculture. This comprises investment in infrastructure, education, R&D, extension, irrigation, etc. It can further be classified into – investment ‘in’ agriculture and investment ‘for’ agriculture. Investment ‘for’ agriculture comprises the public investment in power, roads, rural industry, marketing, railways, storage, communications, banking, insurance, health, education, etc. Public investment ‘in’ agriculture includes all investments which directly benefit the agriculture (such as investment in irrigation projects or agricultural R&D, extension, fertiliser, pesticides, farm machines, etc.). Thus, investment 'in' agriculture directly influences agriculture through increase in land productivity. Investment 'for' agriculture may have an indirect impact through improvement in overall infrastructure. Public investment is not only critical for enhancing the productive growth but is also important for attracting private investment in the sector. This is described as public investment in irrigation resulting in a 'crowding in' effect on private investment in agriculture.

Private investment in irrigation, farm machinery and technology, HYVs, chemical fertilisers, livestock, etc. directly contributes to agricultural production and productivity growth. The elasticity of private gross capital formation in agriculture, with respect to public investment in irrigation and power is estimated to be 0.16 and 0.15 respectively. This implies that a Rs.100 investment by the government in irrigation and power increases the private investment in agriculture by Rs. 16 and Rs. 15 respectively. Studies have shown that private investment in agriculture is influenced by public investment in irrigation, institutional credit, terms of trade, infrastructural variables like road density and electricity consumption, etc. Since agriculture is a state subject, compared to private investment, public investment is determined by the income of the respective states.

Public and private investment in agriculture is both complementary as well as substitutive. For instance, if basic agricultural infrastructure is created by the government, farmers would be incentivised to invest in tractors, pump-sets, tube-wells, etc. On the other hand, public investment can also be a substitute for private investment because if government installs deep tube wells in canal command areas for supplementing the surface irrigation and ensuring assured supply of irrigation water for agriculture, farmers would not need to make their own investment in groundwater irrigation. In general public investment should be made for the larger purpose of development of new seeds, technology, agricultural services, agricultural markets, etc. Although agribusiness firms also provide new technology, seeds and inputs to farmers, there can be no substitute for public investment especially for creating public goods and services that induce agricultural development. Therefore, both public and private investment in agriculture helps to bring about technical progress by shifting the production frontier upward.

7.3.1 Composition of Private and Public Investment

Private investment in agriculture can be classified into fixed capital and working capital. Investments made in machines, tools, farm building, tractor, land levellers, cultivators, harvesters, tube well, irrigation structure, tree-stock, livestock, land development, soil and water conservation harvesting structures, etc. are termed as investment in fixed capital or assets. These assets help to raise farm production, productivity and income. Similarly, working capital helps to purchase various farm inputs such as seeds, fertiliser, pesticides, irrigation water, hiring of agricultural labour, hiring of machines and draught power. Both fixed and working capitals are critical for the timely performance of various agricultural operations. Public investment in agriculture consists of investment made by central, state and local governments for creating various tangible and intangible assets. These could be by way of land development, minor and major irrigation projects, soil and water conservation and harvesting works, afforestation, rural roads and electrification of villages, agricultural R&D, farmers training and capacity building, etc.

7.3.2 Determinants of Private Investment

There are several factors that determine the private investment in agriculture. Important among them are: (i) terms of trade, (ii) flow of institutional credit, (iii) public sector investment in agricultural infrastructure, (iv) input subsidies, (v) technological change, (vi) increase in size of operational holdings, etc. Favourable terms of trade to agriculture would increase the profitability in agriculture and encourage the farmers to invest more. Public sector investment in irrigation, power, road, markets, soil and water conservation, agricultural R&D, extension, etc. induces private investment in agriculture due to their complementarity with private investment. Although, in general, agricultural subsidies may 'crowd out' real public investment in agriculture, subsidies on tractors, pump sets, fertilisers, electricity, diesel, etc. have positive impact on private investment in agriculture. Technological advancement also affects private investment. New technologies adopted in agriculture during green and post-green revolution periods have been more capital intensive than the traditional technology used in the pre-green revolution period.

Rising number of operational holdings due to division of holdings are likely to increase private investment as division of holdings increases the demand for investment in farm assets and machinery. The availability of institutional credit and subsidies to the farm sector motivates these divided holdings to increase investment in farm machinery. However, investment in farm machines by the divided holdings may increase the production cost due to under-utilisation of such machines. Public investment in agriculture has ranged between 0.3 to 0.6 percent during 2005-2015 whereas private investment has ranged between 1.8-2.7 percent during the same period. Private investment is complementary to public investment which responds better and faster to incentive structures. This means that improved incentives in the form of better returns or better prices (or favourable terms of trade) play a catalytic role in accelerating the private investment in agriculture.

Check Your Progress 1 [answer within the space given in about 70-100 words]

1) Distinguish between labour productivity and land productivity.

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2) Why is it necessary to convert nominal values into real values while comparing the value of productivity over time?

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3) What is TFP? Before 1990s, generally, which method used to be employed for measuring TFP? What are its limitations?

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4) What are the determinants of COR? What does its increasing trend signify?

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5) State some of the areas in which public investment in agriculture should be made.

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6) State the factors which determine the private investment in agriculture.

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7.4 MEASURES TO INCREASE AGRICULTURAL PRODUCTIVITY

Per hectare productivity of various crops in India is quite low when compared to other countries. For instance, per hectare yield of paddy in China is about 1.9 times of the yield in India. It is 1.3 and 1.4 times respectively in Bangladesh and Indonesia. Productivity of wheat in China is over 2.0 times of that in India. Per hectare yield of maize and groundnut in USA is more than 4 times and 3 times respectively of the yield in India. Per hectare yield of pulses in China is more than 2.5 times of that in India.

The uneconomical size of holdings limits the feasibility and capability of farmers for adoption of new farm technology necessary for improving productivity per unit of land and other inputs. Being state subjects, investments (in irrigation, agricultural R&D, extension, transport, storage, market and electricity) are to be made by the state governments although the central government also invests in these areas. Thus, while the development of agriculture largely depends on the ability and willingness of the state governments to investment in agriculture, the role of the central government is crucial in resource transfer to the states and in the formulation of macroeconomic policies that directly or indirectly affect agricultural productivity and growth. A number of factors are responsible for low productivity in Indian agriculture which can be elaborated as follows.

7.4.1 Knowledge Deficit

Knowledge deficit leads to adoption of inappropriate cropping pattern and inefficient use of scarce resources. This in turn raises the cost of production, degrades the soil, water and other environmental resources and makes the agriculture unsustainable– economically, ecologically and socially. There is a wide gap between what the technologist gets in the experimental farm and what a farmer gets on his farm. There is also a wide gap between the ‘best practice’ farmers and the ‘common’ farmers. The National Policy on Farmers emphasise: (i) reducing the knowledge deficit in agriculture through effective training and lab-to-land demonstrations in the area of post-harvest technology, agro-processing and value addition; (ii) effective linkages of farms with research institutions, farmer-to-farmer knowledge and technology transfer; and (iii) establishment of Farm Schools.

7.4.2 Institutional Factors

India initiated land reforms and abolished the feudalistic agrarian structure. However, there are still number of institutional bottlenecks which are responsible for low productivity in agriculture. The absentee landowners, lack of security of land tenure, inadequate infrastructural support in terms of institutional credit, transport system, marketing/storage/processing facilities, etc. have continued to be factors of deterrent in raising productivity. While many of the institutional arrangements are already in place, their effective implementation is lacking. While there is a need to revitalise and reform the existing institutions (such as APMC, farmers organisations, cooperative societies, credit and marketing institutions), there is also a need to develop new institutions like Farmer Producers Organisations (FPOs), group farming and marketing, contract farming, customised hiring of costly farm machines, private agri-clinics, etc. Since Indian agriculture continues to be heavily dominated by small and marginal farmers, appropriate institutional development need to be promoted to improve productivity and profitability of these farmers.

7.4.3 Technological Factors

More than 85 percent of Indian farmers are small and marginal. They do not have access to new technologies due to both demand and supply side constraints. Public extension services have been declining since the introduction of reforms and, as a result, they continue to operate with traditional methods which are low yielding. Farm technologies can be classified into two categories– scale neutral and non-scale neutral. Scale neutral technologies can be applied on any size of farm (e.g. new seeds and fertilisers) including by small and marginal farmers. However, scale-neutral technologies may not be resource-neutral. Thus, resource-poor farmers would find it difficult to adopt costly/patented seeds and chemical fertilisers. Access of these technologies to the poor farmers can be made by subsidising the input costs for such poor farmers. Non-scale neutral farm technologies are those which cannot be economically applied on all size of farms (e.g. tractor, harvest combine, tube-well, etc.). These technologies are more cost-effective on large size of farms. But application of these technologies makes it possible for timely execution of various farm operations thereby improving the productivity and efficiency by saving both pre- and post-harvest losses. However, since there is a lower limit beyond which these capital intensive technologies and farm practices cannot be applied in an economically viable manner, it is necessary to establish institutional mechanisms to help small and marginal farmers to pool their land and other resources to apply them.

Technological changes alter the input structure by replacing the traditional inputs by modern inputs and increasing the agricultural output manifold. As a result of increase in production, there is a corresponding increase in the marketable surplus. Consequently, farmers become more dependent on the market for the purchasing of inputs and selling the farm output. Market also expands with farmer’s supply decisions getting influenced by the market signals. Thus, technological progress leads to commercialisation and capitalisation of agriculture and increase productivity.

7.4.4 Water Use Efficiency

Surface and ground water are the two important sources of irrigation. The share of surface irrigation in the total irrigated area has been continuously declining while the corresponding share of groundwater irrigation has been rising. Groundwater irrigation is preferred on equity, efficiency, productivity and private investment grounds. It facilitates diversification of small and marginal farming from traditional to HVCs as these crops require small doses of water on demand at frequent interval. However, due to the government policies related to agricultural credit, subsidy, inputs, power and lack of effective regulation, groundwater sustainability has become a key issue of concern. Therefore, price policy should be properly integrated with the water policy as an instrument to improve efficiency, productivity and sustainability of groundwater. In other words, a rational power supply and pricing policy for tube-well irrigation could be an effective instrument for water-use efficiency. One viable option is to shift from flat rate to meter-tariff system. Farmers should also be compensated by providing subsidy on procurement of modern water saving technology, especially in those regions where water table has significantly gone down due to over-exploitation of groundwater.

Besides the above, focusing on: (i) public investment in agricultural infrastructure, (ii) developing an appropriate training infrastructure at the block level for improving the human capital base, (iii) integrating Indian agriculture with the global value chain, (iv) develop a market for custom hiring services of farm implements, (v) protecting farmers from technology and market failures and (vi) diversification towards horticulture and livestock products are also important in this context.

7.5 ISSUES RELATED TO AGRICULTURAL REFORMS

Important issues requiring reforms in Indian agriculture can be discussed under the following six heads: (i) diversification; (ii) organic farming; (iii) crop insurance; (iv) contract farming; (v) land lease market; and (vi) agricultural trade.

7.5.1 Diversification

Indian agriculture today is largely market driven. Urbanisation, increase in per capita income and changing consumer tastes and preferences have changed the consumption demand from food grains to livestock and horticulture products. The factors that determine the agricultural diversification may be categorised for their supply, demand and policy dimensions. The development of infrastructure in terms of roads, markets, storage, processing, land availability, technology advancement and increase in human capital are the major supply side factors. Urbanisation, income growth and convergence of food habits are demand side factors. Policy driven factors are input subsidy, reform in tenancy and lease laws, promotion of contract farming and incentives to induce corporate investment in agriculture.

Crop diversification can be classified into horizontal and vertical diversification. Horizontal crop diversification refers to addition of more crops to the existing cropping systems whereas vertical crop diversification refers to shifting the cropping pattern from low value cereal crops to high value horticulture crops (e.g. fruits, vegetables, floriculture, agro-forestry, medicinal and aromatic plants). An extension of crop diversification to allied activities like animal husbandry, poultry, fisheries, etc. is much needed. While various studies show that farm diversification can ensure productive and remunerative employment, in the absence of adequate marketing infrastructure and institutional arrangement, farmers growing these high valued crops (HVCs) of perishable nature bear the brunt of price and output volatility. Such products require efficient post-harvest logistics, supply chain and processing infrastructure to avoid wastage. Also, the most critical point in the entire chain of 'farm harvest to post-harvest logistics' is the extent to which the farmer is directly involved as a partner in the process. Creation of institutions such as 'Farmers Producers Organisation' (FPOs) in which farmers are partners is extremely crucial for scaling up post-harvest operations directly linking them with markets beyond the local markets.

7.5.2 Organic Farming

High input-intensive farm practices deplete and contaminate the groundwater, increase the external input cost, deteriorate the quality of soil, increase the credit requirement of farmers and consequently increase indebtedness among farmers. Need for organic and sustainable agricultural practices is crucial not only for reducing the adverse consequences of inorganic farming but also for protecting human health, biodiversity and water bodies. Organic farming is more labour and knowledge intensive, depends more on locally available resources, has potential to improve rural livelihood, reduces distress migration, facilitates involvement of SHGs in preparing bio-fertiliser and bio-pesticides and develops local market for these products.

Shifting from conventional to organic farming requires at least three-year transition period. During this period, crop yield declines and farmers do not get premium prices. Therefore, for the promotion of organic farming practices, farmers need state support in terms of farm income protection (through subsidised organic inputs or through direct cash transfer during this period). It could be a viable option if state support is also extended for developing market infrastructure, an institutional arrangement for quality certification and branding, training of farmers, etc. Specifically, the following policy supports are required for its promotion:

- Training and capacity building infrastructure should be created to enhance the knowledge and skills of farmers through effective training programmes related to organic farming, composting techniques, bio-pesticides and bio-fertiliser, value addition techniques, group-forming and organisational skills.
- Assured markets for organic products. This can be developed through contract farming, risk coverage through insurance, consumers' awareness on organic products, development of infrastructure facilities for post-harvest management, processing and marketing, etc.

7.5.3 Crop Insurance

Indian agriculture suffers from three failures: market failure, technology failure and weather failure. Therefore, to protect the farmers from these failures, introduction of an effective agricultural insurance system is needed. In the past, Government has launched several agriculture insurance schemes on pilot basis with limited coverage [e.g. Comprehensive Crop Insurance Scheme (1985) which covered only loanee farmers for food and oilseeds crops, Weather Based Crop Insurance Scheme (WBCIS) (2007) introduced in selected areas on pilot basis]. Taking note of shortcomings of the earlier schemes, the Pradhan Mantri Fasal Bima Yojana (PMFBY) was launched in 2016. The scheme provides a comprehensive insurance cover against failure of the crop. It covers all crops, including horticulture. The scheme is compulsory for loanee farmers and voluntary for other farmers. The loss assessment for crops due to non-preventable natural risks will be on ‘area approach’. Majority of insured crops are eligible for indemnity claims up to maximum of 25 percent of the sum-insured. However, losses due to localised perils (hailstorm, landslide and inundation) and post-harvest losses due to specified perils (e.g. cyclone/cyclonic rain and unseasonal rains) would be assessed at the affected insured field of the individual insured farmer. The Government of India has recently designed an insurance portal for farmers, states, insurers and banks. Basic information like notified areas, crops, sum insured, government subsidy, premium to be paid by farmers, etc. have been digitised and put on the web portal so that farmers and other stakeholders get information about crop insurance and premium cut off dates. There is a critical need to integrate all stakeholders on one virtual platform.

7.5.4 Contract Farming

Contract farming is an agreement between farmers and processing and/or marketing companies for the production and supply of farm produce at pre-determined prices and quality. It can also be a tripartite agreement between farmers, company and Government. The farmer is required to grow the contractor’s crop on his land and supply the output based on expected yield and contracted acreage. In some cases, the companies also provide inputs and technical advice to the farmers. The use of contracts has become attractive to farmers since the arrangement can offer both an assured market and access to production support. One of its strengths can be transfer of technology and better farm practices to the contracted farmers. Changes in tenancy, lease and land transfer laws would facilitate private companies getting into agribusinesses. In order to facilitate entry of agribusiness firms into production, marketing, agro-processing and allow direct marketing, Government has formulated a Model Agricultural Produce and Livestock Contract Farming (Promotion & Facilitation) Act, 2018.

Contract farming can be a viable option for small and marginal farmers who find themselves unable to participate in the market due to various constraints. It is considered a win-win situation for both farmers and the companies as it eliminates the middlemen and ensures an assured supply of agro-products to the companies. The failure of public institutions to provide farmers with the essential marketing protection and support also makes a strong case for promotion of contract farming. It is also argued that it would help reduce the burden on the government procurement system and the hidden producers' subsidies. From the employment generation point of view also, contract farming is favoured particularly in horticultural crops where there is a higher labour absorption capacity. However, there are a number of risks associated with contract farming. Common problems include farmers selling to a buyer other than the one with whom they hold a contract or the inputs supplied by the company being used for other purposes. Problems on the other side include: contract farming company sometimes failing to buy products at the agreed price or in the agreed quantities, arbitrarily downgrading the quality-grading of the produce, etc. A good legal framework is therefore crucial for its successful implementation and long-term sustainability.

7.5.5 Land Lease Market

Absence of a sound institutional framework for land leasing is a major constraint in mobilising private investment in agriculture. Well-developed land rental markets are required in order that landowners who have shifted to non-farm activities can rent their land to those who can increase their size of operational holdings and derive the benefits of scale economies. The most important feature of a well-functioning rental market is security of the owner and the tenant. In the absence of effective land tenancy laws, land lease market in India is inefficient and distorted. Hence, new legislations on land tenancy rules are needed to encourage shared-cropping and contract farming. Tenancy in most Indian states is at present (2018) not allowed legally though it exists informally. Legalising tenancy would permit effective consolidation of farming without the need for depriving land ownership. An Expert Committee constituted by NITI Aayog in 2017 on Land Leasing (under the chairmanship of Professor Haque) proposes to set up 'land banks' in which landowners could deposit their land parcels so that cultivators can lease land. The public agency acts as an intermediary and transfers rent from the cultivator to the owner charging a small fee to cover its costs. This is expected to permit the consolidation of operational landholdings in the country.

7.5.6 Agricultural Trade

Infrastructure for trade plays a major role in determining the level of both domestic and international trade which is important for improving the performance of Indian agriculture. Efficient transportation and handling facilities are essential pre-requisites for agricultural trade since most of the agricultural commodities are perishable in nature and hence require quick handling, processing and disposal facilities. Trade in goods and services among different countries are generally based on comparative advantage.

However, in case of Indian agriculture, trade is also required to meet the objectives of food security and achieving price stability. The government should regulate the agricultural trade through policy instruments like increasing/decreasing tariffs within bounded rates. Agriculture is a politically sensitive issue as it is not only an economic activity but also a way of life and livelihood of a majority of rural workforce. Food security is also a major concern because price volatility in international market can jeopardise it. Therefore, all policies for establishing balance between the domestic objectives of food security and market stability in agriculture need to contend with domestic political concerns.

After implementation of WTO regulations, it was envisaged that distortions in agricultural trade would be reduced and scope for exports of products from developing countries would increase. In other words, post-WTO trade regime was expected to help the efficient producers through better prices for their products. However, the experience of two decades of implementation of WTO regulations shows that heavily subsidised large scale mechanised agriculture in developed countries has made the agriculture of developing countries less competitive in the global market. Greater price and output volatility in the global market can be disastrous for Indian farmers. Oilseed and pulses producers have already faced problems due to such price volatility. Therefore, suitable policy actions are to be taken to protect the farmers from the implications of such shocks.

Check Your Progress 2 [answer within the space given in about 70-100 words]

1) State the major factors responsible for low productivity in agriculture in India.

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2) On what lines, new institutional arrangements are needed to be established to promote the productivity levels of Indian agriculture?

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3) In what way 'pooling of land' can help overcome technological constraints in Indian agriculture?

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4) What is meant by vertical 'crop diversification'?

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5) State the disadvantages of high 'input-intensive' inorganic farm practices.

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6) What are the advantages of 'organic farming'?

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7.6 LET US SUM UP

The biggest challenge for policy makers in the present time is to enhance the agricultural productivity and sustain the livelihood of resource-poor marginal and small farmers. State support to farmers, coupled with the right mix of pricing and marketing policies along with the appropriate output-mix and farm diversification towards high value horticulture and livestock products can make agriculture a vibrant and profitable activity. An effective regulatory and rule-based mechanism needs to be put in place to attract private investment in agriculture and to protect the interests of farmers and consumers from the oligopolistic power of agri-business companies. The present unit examines these aspects along with the key agricultural reforms required for revitalising the Indian agriculture.

7.7 KEY WORDS

Productivity	:	Ratio of a measure of output to one or more inputs used in production. If only one input is used, the measure is called Partial Factor Productivity. If more than one inputs are considered then the measure is called as TFP.
Capital Output Ratio	:	Refers to the amount of capital required to produce one unit of output.
ICOR	:	ICOR is defined as the ratio between investment in time 't' and the growth in output over a period i.e. between time 't' and time 't-1'.
Technical Efficiency and Technical Change	:	Technical efficiency and technical change are the two sources of TFP. Technical efficiency refers to the ability of a production unit to produce maximum possible output from a given combination of inputs and technology. Technical change refers to shift in the production frontier over a period of time due to application of new technology. Thus, TFP increases either due to improvement in technical efficiency or due to shift in production frontier (technical change) or due to improvement in both.

7.8 SOME USEFUL BOOKS AND REFERENCES

1) Bathla, Seema, Thorat, Joshi and Yu Bingxin (2017). 'Where to Invest to Accelerate Agricultural Growth and Poverty Reduction', *Economic and Political Weekly,* LII (39), Sept.30, pp 36-45.

2) Chand (2017). Doubling Farmers' Income: Rationale, Strategy, Prospects and Action Plan", NITI Policy Paper 01/2017 National Institution for Transforming India, Government of India, New Delhi.

7.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Labour productivity is defined as the ratio of 'total quantity or value of farm production to total number of persons engaged in its production. It is the per person output. Land productivity is the per hectare yield of a crop.

2) This is necessary to neutralise the effect of changes in prices.

3) Unlike PFP, TFP can consider the effect of more than one factor in determining the growth in any one variable. The limitation of GAA is that it assumes perfect competition among production units, constant returns to scale and that each unit is operating on its production frontier i.e. with 100 percent technical efficiency.

4) Its determinants are: innovation, technical progression, mode of production, etc. Its increasing trend implies that the sector is becoming more and more capital intensive.

5) Land development, minor and major irrigation projects, soil and water conservation and harvesting works, afforestation, rural roads and electrification of villages, agricultural R&D, farmers training and capacity building, etc.

6) Terms of trade, flow of institutional credit, public sector investment in agricultural infrastructure, input subsidies, technological change, increase in size of operational holdings, etc.

Check Your Progress 2

1) Knowledge deficit, institutional factors, technological factors and water use efficiency.

2) There is also a need to develop new institutions like Farmer Producers Organisations (FPOs), group farming and marketing, contract farming, etc.

3) By taking advantage of economies of scale for non scale-neutral farm technologies (e.g. tractor, tube well) which can be applied only on large farms.

4) Vertical crop diversification refers to shifting the cropping pattern from low value cereal crops to high value horticulture crops.

5) They deplete and contaminate the groundwater, increase the external input cost, deteriorate the quality of soil, increase the credit requirement of farmers and consequently increase indebtedness among farmers.

6) It is more labour and knowledge intensive, depends more on locally available resources, has potential to improve rural livelihood, reduces distress migration, facilitates involvement of SHGs in preparing bio-fertiliser and bio-pesticides and develops local market for these products.

UNIT 8 AGRICULTURAL POLICY[*]

Structure

8.0 OBJECTIVES

After reading this unit, you will be able to:

- define the term 'agricultural policy';
- state the objectives of 'agricultural policy';
- indicate the sectoral dimension of agricultural sector and in its light the need for policy integration;
- discuss the instruments of 'agricultural policy';
- outline the salient features of 'National Policy for Farmers';
- review the recent agricultural policy reforms in India; and

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- critique the PMFBY and suggest measures to overcome them.

8.1 INTRODUCTION

Agricultural productivity, prices and risks are the critical issues that need to be addressed by an agricultural policy. As discussed in Unit 7, productivity in Indian agriculture is quite low when compared to other countries. Therefore, how to improve and sustain agricultural production and productivity is one of the key policy issues. Similarly, how to ensure remunerative prices of agricultural commodities and protect the welfare of both farmers and consumers is another issue. As agriculture is subject to the market, technology and weather risks, protection of farmers from these risks becomes one of the important policy issues. Both the supply-side and demand-side policy instruments are needed to deal with these issues. The supply side instruments include land reform, diffusion of new farm technologies, price support, institutional credit, input subsidies, public investment in infrastructure services and crop insurance. The demand-side instruments consist of state intervention in agricultural markets, public procurement of food grains, food subsidies, operation of public distribution system and agricultural trade management. Keeping these aspects in view, the present unit discusses the concept of agricultural policy and its objectives, policy instruments and recent policy reforms.

8.2 OBJECTIVES OF AGRICULTURAL POLICY

Agricultural policy can be defined as an action plan to guide decisions for achieving pre-determined goals related to agricultural development. It is a term collectively used for a bundle of policies related to agriculture such as land policy, price policy, trade policy, credit policy, food policy, etc. It reflects the national approach to agricultural development and a set of activities to implement it.

The terms ‘policy’ and ‘planning’ are inter-linked but are yet different in their meaning. Policy refers to the approach and outlook of the government while planning relates to the execution and implementation of that approach. Thus, it is planning through which the policy outlook of the government can be implemented. An agricultural policy may have a long term or short term outlook and may extend in its implementation beyond the specific time period. A plan, on the other hand, is time-bound during which the government makes efforts by allocating the required physical and financial investments to achieve the intended objectives. Some constituents of agricultural policy do not require any planning or public expenditure to implement (such as market reform, tenancy reform, trade regulations). Such measures do not have any direct cost to government. However, their cost and benefit may occur to different stakeholders. For instance, if tariff is increased on an agricultural commodity, it would increase its domestic prices and consequently put positive/negative effect on the producers/consumers.

Agricultural policy may have different objectives to be achieved. Their relevance may change over time. For instance, food security was the major policy objective during 1970s. Today, how to make agriculture ecologically, socially and economically sustainable has become our primary objective. Broadly, we can identify the following policy objectives in the context of Indian agriculture:

- price protection to farmers and management of price volatility due to global integration of Indian agriculture;
- conservation, management and rational use of land, water and other natural resources;
- developing cost-effective, energy-efficient and resource conserving farm technologies;
- ensuring economic viability of small and marginal land holdings;
- farm diversification towards high value horticulture and livestock products;
- removal of regional inequalities in agricultural development;
- ensuring free flow of agricultural commodities across the country; and
- improving the functioning of agriculture product and factor markets.

8.2.1 Sectoral Dimension and Policy Integration

Agriculture sector is a broad term within which many other related sub-sectors are subsumed. Its major constituents are: crop husbandry, animal husbandry, poultry, fishery and other allied activities. Crop husbandry includes food and non-food crops, horticulture (fruits and vegetables), floriculture, etc. In order to augment farmer’s income and make efficient use of available resources, there is a need to have a policy that effectively integrates all these activities. Within the crop sector, policy initiatives may be separate for food crops, feed crops, cash crops and traditional crops. The policy focus in India is largely on wheat, paddy and sugarcane (mainly due to the political lobby in favour of these crops), while horticulture and livestock sectors are yet to receive due policy support. This is despite the several missions that have been launched to promote the horticulture and livestock products. Fruits, vegetables, and livestock provide relatively more income and employment than food crops. The growth of these products is demand driven. However, they are perishable commodities subjected to greater market risks. They therefore require adequate marketing infrastructure and institutional support which are grossly lacking in India. Therefore, knowledge of sectoral perspective on overall farm sector is necessary for evolving a comprehensive policy.

A farmer needs three basic things to do successful farming: (i) adequate incentives to produce (price support); (ii) a secured resource base (land tenure, irrigation, etc.); and (iii) access to well-developed markets (both product and factor markets). An integration of agricultural policy with policies related to land, water, energy, trade, credit, labour, agro-processing, and environment is therefore very much necessary to ensure agricultural sustainability. Such a policy integration also helps to combine the required interplays and trade-offs. For instance, if the policy objective is to make efficient use of groundwater, it can be achieved by subsidising the cost of modern irrigation technologies such as drip and sprinkler irrigations. However, if the state government provides free or subsidised power for tube-well irrigation, this objective would be difficult to achieve. Agricultural policy has therefore to be comprehensive in dealing with the interrelated aspects. Again to cite examples for this, policy interventions oriented toward improving marketing channels will be effective only if they are linked to the trade and tariff regulations. Likewise, access to institutional credit to farmers should be linked with security of land tenure.

8.3 INSTRUMENTS OF AGRICULTURAL POLICY

Policy instruments are the means by which intended policy objectives are achieved. Effectiveness of an instrument not only depends on the flexibility of the instrument to adopt to changes but also on how it is used in conjunction with other instruments. Policy instruments can be broadly classified into three categories. First is related to public expenditure comprising of investment in agriculture infrastructure, R&D and subsidised inputs. Second consists of controls and regulations, primarily on prices and trade. The third is direct management of production and marketing through State-owned enterprises. In case of agriculture, a number of policy instruments (e.g. price support, public procurement of food grains, input subsidies and public investments in agricultural infrastructure) are applied to pursue the policy objectives. These instruments are complemented with trade policy instruments and exchange rate adjustments to achieve export competiveness which is dynamic in nature. For instance, till recently, quantitative restricts (QRs) were used as an instrument to protect the domestic agriculture from cheap imports. But in the post-WTO period, tariff is the key instrument in managing agricultural imports. Following are some of the main policy instruments used for promoting the agricultural sector in India.

8.3.1 Subsidies

Agricultural subsidies are of two types: investment subsidies and input subsidies. Investment subsidies are provided to encourage private investment in agriculture (e.g. investment in drip irrigation, rain water harvesting, farm machines). Input subsidies are provided through subsidising fertilisers, irrigation, farm power, seeds and pesticides. In addition, interest subsidy is also provided on institutional credit for farmers to meet their short-term and long-term needs. Although food subsidy does not directly benefit farmers (as it is given to the consumers), it indirectly influences them by raising the demand for subsidised food-grains.

Subsidy given to a farmer per unit of an input is equivalent to a fall in its price by the amount of the subsidy. If other things remain unchanged, a fall in the cost of an input due to subsidy would lead to increased farm production, reduced output price and increased demand for output in final consumption and agro-processing. If subsidy is used as a policy instrument, along with stability in output-price, it would enhance farmer's income. However, if the market price declines due to input subsidy, its benefit would go to consumers and agro-processing companies rather than to farmers.

Agricultural subsidies are questioned on environment, equity and efficiency grounds as they encourage over-utilisation of inputs resulting in soil degradation, soil nutrient imbalance, environmental pollution and groundwater depletion. A steep rise in subsidy can crowd out public investment in agriculture, as governments may find it difficult to increase public investment in the sector. Moreover, due to their inequitable distribution across regions and farm-sizes, their benefits are generally availed by big farmers, especially in the agriculturally developed regions. For instance, a sizable portion of fertiliser subsidy is grabbed by farmers of irrigated regions as fertiliser consumption in rain-fed regions is quite low. Similarly, subsidised flat rate power tariff system causes depletion in groundwater table, distorts cropping pattern and adversely affects the sustainability of agriculture. It benefits more the big farmers as they have relatively lower unit-cost due to their larger farm size.

8.3.2 Price Support

Price of a product is one of the key determinants of its supply. Therefore, price support works as an incentive to increase crop production, productivity and farm income. The government fixes the minimum support price (MSP) for an agricultural output to ensure reasonable income to farmers. If market price of the price-supported crop is below the MSP, the responsibility to procure the produce from farmers (by compensating for the difference between MSP and market price of the crop produce) rests with the government. If the policy objective is to enhance farmers' income, ratio of output prices to input prices must be greater than one. Profitability in agriculture would increase only when the index of output prices grows faster than the index of input prices. When self-consumption is a relevant share of production (as is the case with marginal farmers), price support becomes less effective in improving the farmers' welfare.

In addition to MSP**,** a Market Intervention Scheme (MIS) is implemented (on ad hoc basis) in India for perishable and horticultural commodities not covered under MSP. This is done if either the production increases by at least 10 percent or price decreases by 10 percent over the corresponding figures for the previous normal year. Its objective is to protect the growers from making distress sale in the event of a bumper crop when prices tend to fall below economic levels. The central and state governments equally share the losses incurred in its implementation.

8.3.3 Direct Payments

Direct payments are used as an instrument to maintain the agricultural output within a pre-defined output quota. Some developed countries like EU and USA use this policy instrument. They are given for enabling the performance of the multi-functionality role of agriculture (e.g. conservation of land and water resources, protection of natural environment and biodiversity, provision of safe and high-quality food, preservation of rural landscapes and heritage and socio-economic and cultural development of rural areas). All these being public goods, market cannot provide them. Therefore, direct payments are given to farmers for performing this role. Unlike price support, this instrument is considered less trade distortive as it is not a link to the output price of any crop. India can use this instrument to promote organic and sustainable agricultural practices. Since organic farming has positive environmental externalities, farmers practicing organic farming may be provided direct payments on a per hectare basis as a ‘green bonus’.

The concept of ‘Direct Payments’ is different from the concept of ‘Direct Benefit Transfer’ (DBT). DBT is a system through which government transfers subsidy directly to the bank account of the intended beneficiary so that its misdirection and leakage is curtailed. For instance, a subsidy given on purchase of laser land leveller may be transferred to the account of beneficiary farmer after he purchases it from the market. Contrary to this, direct payment is the monetary support to the farmers for achieving the specific objective. For instance, if government wants that small and marginal farmer households should get the minimum income protection, then direct payment can be given to those households whose annual income falls below the minimum level. Such payment improves the economic welfare of intended beneficiaries but does not directly affect farm production and prices.

8.3.4 Institutional Credit

Farmers’ credit needs are met by institutional and non-institutional sources. The non-institutional sources are money lenders, input dealers, traders, relatives, etc. Institutional sources are commercial banks, cooperative banks, regional rural banks and cooperative credit societies. Institutional credit is classified into short, medium and long terms on the basis of time-period. Short-term credit is provided for working capital (crop loan) for purchasing seeds, manure, fertiliser and pesticides or for meeting labour charges. They are normally for a period of less than one year. Medium-term loans (given for a period of 1-5 years) are for investment in land development, purchase of livestock, farm machinery and generation of other productive assets. Long term loan (over 5 year period) are given for fixed capital formation such as purchase of tractors, installation of tube-wells, etc. Provision of cheap and timely credit (with low transaction costs) helps the farmers in applying new farm technologies and practices, diversify farm activities and improve farm income. A major policy issue is how to provide easy and affordable bank credit to tenant farmers, group farmers and small and marginal farmers. Banks are generally disinterested in credit disbursement to these segments due to high transaction and operation costs.

8.3.5 Crop Insurance

Indian agriculture suffers from three types of failures: market failure, technology failure and weather failure. To protect them from these failures, an effective policy instrument is ‘crop insurance’. Besides helping in stabilisation of crop production and farm income, it encourages farmers to invest in new farm technologies and adopt risky but more remunerative cropping system. Besides protecting farmers from unforeseen setbacks, it helps in maintaining income stability and minimises the risk of non-payment of outstanding debt. Agriculture is the single most affected sector by droughts, floods and other natural shocks. There should therefore be a group insurance system so that transaction costs are brought down. Further, an in-built mechanism of insurance against the technology failure (such as costly hybrid seeds developed by the private companies) needs to be introduced so that farmers investing in such technologies may be protected against any unforeseen losses.

8.3.6 Public Investment in Infrastructure Services

State investment in irrigation, land improvement, soil and water conservation, roads, electricity, water and pasture land improvement are the major elements of infrastructure services. In addition, general services provided to producers (either free or at subsidised costs) include research, training and extension services, inspection services, and pest and disease control services. All these services help to boost agricultural economy.

8.3.7 Exchange Rate and Trade Interventions

Exchange rate management and trade interventions are used as policy instrument for protecting the interest of both farmers and consumers. Generally, depreciation of domestic currency (vis-à-vis other foreign currencies) would have positive impact on agriculture as it makes agricultural export cheaper (and import costlier) thereby improving the export competitiveness. However, its effectiveness depends on the elasticity of exports (and imports) to change in value of domestic currency relative to foreign currencies.

Trade intervention comprise quotas, import duties and export subsidies. These are used to increase (or decrease) quantity of traded commodities and thus increase/decrease domestic prices. Due to WTO regulations, quantitative restricts (quota) on agriculture trade in India had to be lifted. With this, tariff (import duty) became the main instrument to regulate agricultural trade. Tariffs for various agricultural commodities are changed from time to time in response to domestic supply and price situation. It is therefore considered a price support and stabilisation instrument. Tariffs are levied on agriculture imports to keep the price of imported products higher than the prevailing MSP of that product. Exports are curtailed or banned if there is an estimated shortfall in domestic production in order to reduce upward pressure on prices. However, the instrument of tariff used in this manner protects the consumers interest rather than the farmers. A stable and pro-farmer trade policy that ensures a strong linkage between domestic and international markets and takes a holistic view (on food security, farm income, livelihood, and agricultural sustainability) is therefore needed.

8.3.8 Warehouse Receipts

Government of India has set up the Warehousing Development and Regulatory Authority (WDRA) to develop and regulate warehousing, including registration and accreditation of warehousing for issuing Negotiable Warehouse Receipt (NWR). A number of agricultural commodities, including horticulture commodities have been notified for the purpose of NWR. This instrument helps the farmers in stopping 'distress sales' of their produce. A farmer can deposit his produce in a WDRA accredited warehouse, which issues him a NWR, which can then be used as collateral for taking loan from a bank.

8.3.9 De Minimis

Agreement on Agriculture (AoA) under WTO classifies domestic support to agriculture into two categories– trade distorting and non-trade distorting. For trade distorting support, it sets the limit beyond which the support is not permissible. The de minimus refers to the trade distorting domestic support (subsidies) that can be given by a member country to its agriculture. It is a significant policy instrument used for promoting agriculture. It comprises the non-product specific subsidies such as given on fertilisers, electricity, irrigation, seeds, credit, etc. In developed countries, de minimus support is allowed up to 5 percent of agricultural GDP while for a developing country like India, it is permitted up to 10 percent of agricultural GDP. These subsides must be paid out of the government budget.

Check Your Progress 1 [answer within the space given in about 80-100 words]

1) Define the term 'agricultural policy' distinguishing between the terms 'policy' and 'planning'?

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2) Is it true that despite the fact that allied agricultural sectors like horticulture and floriculture are more income and employment generating, requisite agricultural policy support to these sectors have not yet come forth in India? Why?

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3) On what grounds, agricultural subsidies are questioned? Are they justified?

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4) Under what circumstances, MSP fails as a policy instrument to ensure farmers' welfare?

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5) How is 'direct payments' an useful policy instrument for developing economies like India?

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6) How is 'public investment in infrastructure services' a policy instrument?

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7) What is de minimus? Is de minimus support trade distorting?

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8.4 RECENT AGRICULTURAL POLICY REFORMS

National Policy for Farmers (NPF) 2007 provides a holistic approach to agriculture development. It focuses on the economic well-being of farmers rather than just on agricultural production. The term 'Farmer' is referred to a person actively engaged in farming activities as cultivator, labourer, sharecropper, tenant, poultry and livestock holder and any other person engaged in allied agricultural activities like fishing, beekeeping, gardening, agro-forestry, sericulture, non-corporate plantation, etc. Thus, its ambit of definition of farmer is kept wide so that no section is left out. The policy aims to: (i) improve economic viability of farming and increase net income of farmers; (ii) provide opportunities of non-farm employment for farm households; (iii) introduce measures for attracting and retaining youths in farming; (iv) develop and introduce a social security system for farmers; (v) provide risk management measures; (vi) protect and improve land, water, bio-diversity and genetic resources; (vii) provide appropriate price and trade policy mechanisms; and (viii) initiate agrarian reforms. In addition to these measures, in order to revitalise agriculture and improve farm productivity, profitability and income, some of the other recent agricultural policy reforms initiated are the following.

8.4.1 Tenancy Reform

In the absence of effective tenancy laws, land lease market in India is inefficient and distorted. Tenancy reform can promote shared-cropping and contract farming. A secured tenancy encourages the tenant farmer to make farm investment by removing insecurity from the mind of land owner and helping to develop the land-lease market. The Haque committee report (2017) has suggested setting up 'land banks' in which landowners can deposit their land parcels which can then be leased out to cultivators. The public agency will act as an intermediary and will transfer rent from the cultivator to the owner charging a small fee to cover its costs. Its implementation would encourage consolidation of operational landholdings and economies of scale.

8.4.2 Market Reform

Organised wholesale agricultural marketing is done in India through a network of regulated markets established under State APMC (Agricultural Produce Market Committee) Acts. However, over time, these markets have become restrictive and monopolistic. The existing regulatory framework of APMC does not support free flow of agricultural trade and direct marketing by farmers. These constraints can be overcome by replacing the APMC framework by a more liberal and progressive law that allows free competition, promotes transparency, facilitates flow of commodities across space and time and encourages operation of multiple marketing channels. Keeping these aspects in view, Government of India has formulated a Model Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017. The State governments are required to make amendments in their respective AMPC Acts to make them conformative to this Act. The Act focuses on:

i) promotion of direct marketing of agricultural produce;

ii) free-flow of agricultural trade across states;

iii) enhancing transparency in trade operations and price settlement through electronic and other innovative technology;

iv) promotion of multiple channels for competitive marketing, agro-processing and agricultural export;

v) encourage investments in development of markets and marketing infrastructure;

vi) de-intermediate the supply chain by integration of farmers with processors, exporters, bulk retailers and consumers;

vii) create a conducive environment for setting up and operating private wholesale market yards and farmer consumer market yards;

viii) promote direct interface between farmers and processors/exporters/bulk-buyers/end-users so as to reduce the price spread and accrue advantage to both producers and consumers;

ix) promote a national market for agriculture produce through the provisioning of inter-state trading licence and establishment of grading, standardisation and quality certification facilities;

x) rationalise market fee and commission charges; and

xi) provide a level playing field to the licensees of private market yard, private market sub-yard, electronic trading and direct marketing vis-à-vis the APMCs.

Introduction of e-NAM, an e-trading platform under National Agriculture Market (NAM) is an important policy initiative towards creating a unified national agriculture market with digital platform. State governments are taking steps to undertake market reforms and amend their APMC Acts to permit e-trading of agricultural produces. Government of India has also formulated a Model Agricultural Produce and Livestock Contract Farming (Promotion and Facilitation) Act, 2018 to promote contract farming by putting in place a conducive regulatory and policy framework.

8.4.3 National Mission for Sustainable Agriculture (NMSA)

NMSA is one of the eight missions launched under the National Action Plan on Climate Change. It aims to make agriculture more productive, sustainable, remunerative and climate resilient by using environment friendly and energy-efficient technologies. The mission adopts four interventions to achieve the sustainable agriculture goal. They are: (i) rain-fed area development (RAD); (ii) on-farm water management (OFWM); (iii) soil health management (SHM); and (iv) Climate Change and Sustainable Agriculture: Monitoring, Modelling and Networking (CCSAMMN).

RAD adopts a cluster approach for development and conservation of natural resources through watershed development and soil conservation. It introduces appropriate farming systems by integrating multiple components of agriculture (such as crops, horticulture, livestock, fishery, forestry) with agro based income generating activities by value addition. OFWM focuses on enhancing water use efficiency by promoting efficient on-farm water management technologies and equipment. SHM aims at promoting location and crop specific sustainable soil health management. It includes residue management, organic farm practices by way of creating and linking soil fertility maps with macro-micro nutrient management, appropriate land-use based on land capability, judicious application of fertilisers and minimising soil degradation. CCSAMMN provides for creation of bi-directional (land/farmers to research/scientific establishments and vice versa) dissemination of climate change related information and knowledge suitable to local agro-climatic conditions.

8.4.4 Pradhan Mantri Fasal Bima Yojana (PMFBY)

Agriculture insurance is considered an instrument for safeguarding farmers from the impact of extreme and unseasonal changes due to climate change. For this, the Government of India has launched a comprehensive crop insurance scheme known as the *Pradhan Mantri Fasal Bima Yojana* (PMFBY). Its main objectives are to: (i) provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests and diseases; (ii) stabilise the income of farmers to ensure their continuance in farming; (iii) encourage farmers to adopt innovative and modern agricultural practices; and (iv) ensure flow of credit to the farm sector. The scheme is compulsory for bank loanee farmer and voluntary for other farmers.

Although the scheme is an improvement over the preceding schemes, it is criticized on grounds like: (i) it fails to cover sharecroppers and tenant farmers; (ii) there has been no concerted effort by the state governments and insurance companies to build awareness among farmers about the scheme; and (iii) there is no direct link between insurance companies and farmers as insured farmers generally receive no insurance policy document. The scheme therefore needs to focus on: (i) increasing coverage of tenant, sharecropper and non-loanee farmers; (ii) cover the risks and losses inflicted by wild animals; (iii) provide proper information to the farmers and issue insurance policy document; (iv) make available all PMFBY related data in the public domain; (v) make village/individual farm as a unit of assessment for crop loss and damage compensation; and (vi) set up an effective monitoring and grievance redressal mechanism.

8.4.5 Small Holders' Aggregation

Small and marginal holdings constitute about 86 percent of total operational holdings in India. Making them economically viable is a major challenge. One way to address the challenge is aggregation of these holdings by a suitable institutional arrangement. In this context, promotion of Farmer Producer Organisations (FPOs) is an important initiative. FPOs help in aggregation and integration of smallholders within an agricultural value chain and ensure their improved access to investment, technology, inputs and market. Farm producers can form groups and register themselves under the Indian Companies Act. Small Farmers Agribusiness Consortium works as a nodal agency to promote the creation of FPOs. FPOs can be set up as Farmer Producer Companies (FPCs) and are allowed to enter into a partnership with private and public sector companies for purposes of supplying farm produce on more equal term.

Check Your Progress 2 [answer within the space given in about 80-100 words]

1) State a recent important 'tenancy reform'.

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2) State two recently formulated Acts to promote production and marketing of agricultural products in India.

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3) State four major initiatives recently launched under the aegis of NMSA for promotion of sustainable agriculture in India.

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4) In what way FPOs are an important reform in the direction of 'small farmers aggregation'?

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8.5 LET US SUM UP

Agricultural policy, among others, must focus on three aspects: adequate incentives to produce; a secure resource base; and easy market access (both output and factor markets). The policy instruments may accordingly be designed to address these aspects. Price support and subsidies are the two key instruments used to incentivise output of different crops. Using these instruments, stated policy objectives (such as crop diversification) can be achieved. A secured resource base (such as secured land tenure, irrigation and other resources) is critical for development of agriculture. Access to both product and factor markets are equally important. Policy interventions used to improve marketing channels and create uniform single national market with digitalised platform for various market operations are likely to increase farm-gate (harvest) prices and reduce the prices gaps (between what the producers get and the consumers pay) by reducing intermediaries. Policy interventions such as improvement in human capital, crop insurance, trade regulations and controls, contract farming, FPOs, etc. can be used to make agriculture economically viable, ecologically sustainable and socially desirable.

8.6 KEY WORDS

Crop Insurance	:	An important policy instrument for farmers' welfare, particularly the small farmers, against market failure, technology failure and weather failure.
Price Support	:	Refers to the policy instrument of MSP fixed by the

		government to ensure reasonable income to farmers.
Tenancy Reform	**:**	Refers to a reform measure to promote share cropping and contract farming. Under this, a secured tenancy is ensured to the lessee and income to absentee owner is ensured by the government which acts as an intermediary between the two parties.

8.7 SOME USEFUL BOOKS AND REFERENCES

1) Arora V.P.S (2013). *Agricultural Policies in India: Retrospect and Prospect*, Agricultural Economics Research Review, Vol 26 (2).

2) Government of India (2007). *National Policy for Farmers*, Ministry of Agriculture & Cooperation, New Delhi.

3) Norton, Roger D. (2004). *Agricultural Development Policy: Concepts and Experiences*, John Wiley & Sons, Ltd., England.

8.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Agricultural policy refers to an action plan to guide decisions for achieving pre-determined goals related to agricultural development. Policy refers to the approach and outlook of the government while planning relates to the execution and implementation of that approach.

2) Firstly, the reason is political as the crop sector in general, and wheat, paddy and sugarcane within it in particular, are heavily protected due to political patronage and interest. Second, being perishable in nature, the required policy support for building up the infrastructural base (like adequate marketing infrastructure, crop insurance against risks, etc.) are yet to take shape. In short, an integrated policy outlook has lacked.

3) Agricultural subsidies are questioned on environment, equity and efficiency grounds. To the extent that they result in encouraging over-utilisation of inputs, cause soil quality degradation, soil nutrient imbalance, environmental pollution and groundwater depletion, the criticism is justified.

4) When self-consumption is a significant share of production of large number of small and marginal farmers.

5) Direct payment are used to conserve nature thereby promoting the multi-functional nature of agriculture. Used for this specific purpose, it is not trade distortive. Countries like India can make use of this instrument to promote organic farming.

6) Besides its direct positive influence, viewed from the consequences of its reduction or outright withdrawal, it has the potential to cause the private investment also to decline. Its combined effect on agricultural sector would be deleterious. On the other hand, it can promote private investment. It thus is an important policy instrument to promote agricultural sector.

7) Under WTO's AoA, de minimus refers to the trade distorting domestic support (subsidies) that can be given by a member country to its agriculture. With the stipulation that it should be paid out of government budget, it is not trade distorting.

Check Your Progress 2

1) Recommendation for the setting up of 'land banks'. This has the potential to encourage consolidation of operational landholdings bringing about economies of scale.

2) Model Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017. Model Agricultural Produce and Livestock Contract Farming (Promotion and Facilitation) Act, 2018.

3) RAD, OFWM, SHM and CCSAMMN (Sub-section 8.4.3).

4) They can help in aggregation and integration of small holders within an agricultural value chain and ensure their improved access to investment, technology, inputs and market.

BLOCK 3
INDUSTRIAL SECTOR

BLOCK 3 INDUSTRIAL SECTOR

Block 3 of this course is on 'Industrial Sector' in India. It deals with two broad areas viz. (i) Industrial Growth and Policy and (ii) Small Scale Industries. The two areas are covered in Units 9 and 10 respectively.

Unit 9, on '**Industrial Growth and Policy**', begins with a brief review of past policies of industrial growth before the 1990s. The industrial policy of 1991 is then described. Trends in industrial growth in India is discussed over four phases viz. 1951-65, 1966-80, 1981-91 and post-1991. A brief note on Competition Commission of India is provided towards the conclusion of the unit.

Unit 10 is on '**Small Scale Industries**'. It begins with an outline of 'Classification of SSIs in India'. The rationale for the promotion of SSIs is then explained. Policies and programmes to remove the disabilities of SSIs to aid its 'growth and performance' is discussed. The features of the MSMED Act, 2006, is explained. The unit concludes with an outline of the 'Industrial Policy for the Small and Tiny Enterprises, 2017'.

UNIT 9 INDUSTRIAL GROWTH AND POLICY[*]

Structure

9.0 OBJECTIVES

After reading this unit, you will be able to:

- indicate the broad framework adopted for advancing India's industrial development immediately after independence;
- describe the major features of the three industrial policies (1956, 1977 and 1980) adopted over the years 1956-1991;
- discuss the major features of the New Industrial Policy of 1991;
- analyse the trends in industrial growth in India during its major phases; and
- state the functions and challenges of Competition Commission of India.

9.1 INTRODUCTION

All developed countries have followed a common pattern of economic development in which there has been a gradual decline in the share of agriculture in total output and a steady increase in the share of industry.

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However, by the 1950s, industrial growth had reached its peak and then levelled off in all the developed countries. Since then, the share of the service sector in total output has been consistently increasing in these countries. Growth of employment in these countries has been found to follow the pattern of national output growth.

India has predominantly been an agrarian economy. Prior to independence, India's manufacturing sector comprised of handicrafts and textiles with a world-wide market. Its products such as cotton and silk fabrics, calicoes, wooden handicrafts and some pharmaceutical products were exported after fulfilment of domestic demand. However, the policies of the British Government led to the decay of Indian handicrafts. For instance, raw materials at very cheap rates were exported from India and high priced finished products brought back from England were sold in Indian markets. Such a discriminatory policy of the British government completely destroyed India's manufacturing sector. However, post-independence, a series of industrial polices were formulated to guide the course of India's industrial development.

9.2 POLICIES BEFORE 1990s

The first policy for India's industrial development was the Industrial Policy Resolution (IPR) of 1948. The policy envisaged a mixed economic system in which importance to both the public and the private sectors was accorded. The private sector was, however, allowed to function with adequate regulation. The major features of this policy were the following.

i) **Division of Industries:** The industries were divided into four broad categories. In the first category, items like arms and ammunition, atomic energy, rail transport, etc. (with the central government having exclusive monopoly) were kept. In the second category, industries like coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone, telegraph and wireless apparatus (excluding radio sets) and mineral oils were kept. The operation of these industries were also to be undertaken by the central government only. The industries in the third category were left to the private sector. However, their operation was subject to planning and regulation of the government. The industries included in this category were automobiles, tractors, prime movers, electric engineering, heavy machinery, machine tools, heavy chemicals, fertilisers, electrochemical industries, non-ferrous metals, rubber, cotton and woollen textiles, cement, sugar, salt, paper and newsprint, air and sea transport, etc. In the fourth category, all remaining industries were left open to private enterprise with a provision that if any industry showed unsatisfactory performance the State would intervene.

ii) **Role of Foreign Capital:** The need for foreign capital to boost the pace of industrialisation was recognised. However, it was specified that the ownership and management in industries with foreign capital would rest with Indians.

iii) **Role of Cottage and Small Scale Industries:** The role of cottage and small scale industries in industrial development was recognised especially those suited for local resource utilisation and for creating jobs.

iv) **Labour Policy:** To foster a harmonious relation between the labour and management, a policy of fair wages and labour participation in management was proposed to be followed.

Within the above framework, the architecture for the industrial development of India was laid out and pursued for the next eight years i.e. up to 1948.

9.2.1 Industrial Policy Resolution, 1956

Certain significant changes took place in the Indian economy in the eight years following the implementation of IPR 1948. These are: (i) completion of the first five year plan (1951-56); (ii) enactment of The Industries Development and Regulation Act was passed in 1951; and (iii) adoption of a 'socialistic pattern of society' as the goal of the country. Against this backdrop, the IPR, 1956 was adopted with the following important features.

i) **Division of Industrial Sector:** The industrial sector was classified into three schedules. In the first category (Schedule A), seventeen industries whose development was to be the exclusive responsibility of the central government were included [e.g. (i) arms and ammunition and allied items of defence equipment; (ii) atomic energy; (iii) iron and steel; (iv) machinery and tools; (v) heavy electric plants; (vi) mining and processing of copper, lead, zinc, tin; (vii) atomic energy, aircraft, air and rail transport; (viii) ship building, telephone, telegraph and wireless apparatus; (ix) generation and distribution of electricity; etc.]. Of these, four industries viz. arms and ammunition, atomic energy, railways and air transport were to be government monopolies. In the remaining thirteen industries, all new units were to be established by the government or public sector, but existing units in the private sector were allowed to exist and expand. In the second category (Schedule B), industries which were government-owned and in which the private sector enterprises were expected to supplement the efforts of the government were included. All minerals (not included in Schedule A), antibiotics, fertilisers, synthetic rubber, road and sea transport, etc. were also included here. The central government would establish new units increasing its participation in these industries but would also allow the private sector to set up new units or expand existing ones. In the third category (Schedule C), Industries not listed in Schedules A and B were included. These industries were left open to the private sector although the government or public sector could also participate. The aim was to give favourable atmosphere and opportunities to the private sector.

ii) **Mutual Dependence of Public and Private Sector:** The government sector and the private sector were to be mutually dependent rather than mutually exclusive. Apart from four sectors i.e. arms and ammunition, atomic energy, railways and transport, the private sector could operate in any other area reserved for the State. The government too could enter category C. Requirements of the public sector establishments could be met from by-products of the private sector and vice-versa.

iii) **Importance of Small-Scale Industries:** The 1956 Resolution too recognised the importance of the small-scale and cottage industries in creating employment opportunities, ensuring a more equitable distribution of income and wealth, etc. The State would help this sector by following a differential taxation policy. It will also help the small-scale sector through direct subsidies and provide help in modernising their techniques.

iv) **Reduction of Regional Disparities:** In order that industrialisation benefits the country as a whole, the 1956 Resolution proposed improvement of transport facilities and power in the backward regions to reduce the regional disparities. The State would encourage the development of industries in the private sector through the provision of transport, power and other services and through appropriate fiscal and other policies. Special assistance would be given to enterprises organised as cooperatives.

v) **Industrial Peace:** It was recognised that in the socialistic democracy, labour is an important participant in the development process and for maintaining industrial peace and improving the living and working conditions of labour, necessary steps would have to be taken.

vi) **Skill Formation:** The resolution accepted that there was a shortage of skilled technical and managerial personnel in the country and hence there was a need to set up technical institutions and management courses in universities.

vii) **Foreign Capital:** As in the Resolution of 1946, the same policy towards foreign capital was proposed in the 1956 Resolution.

The Industrial Policy Resolution of 1956 did not get a very favourable response from the private industrialists because they were apprehensive of the major role to be played by the public sector. However, the criticism of the Resolution did not take into consideration the needs of the time which entailed a strong and vibrant public sector to take the industrial development forward.

9.2.2 Industrial Policy Statement, 1977

A new industrial policy was announced in December 1977 with its main elements as follows.

1) **Development of the Small Scale Sector:** The policy proposed that whatever can be produced by the small scale and cottage sector must only be produced by it. This sector was divided into three categories: (i) cottage and household industries which provide self-employment on a wide scale; (ii) tiny sector incorporating investment in industrial units in machinery and equipment up to Rs. 1 lakh and situated in towns with a population of less than 50, 000; and (iii) small-scale industries (SSIs) comprising industrial units with an investment of Rs. 10 lakh and in case of ancillaries with an investment in fixed capital up to Rs. 15 lakh.

   A 'District Industries Centre' was proposed to be set up to provide all the support and services required by the small scale entrepreneurs. To meet the credit requirements of the small scale sector, a separate wing of the IDBI was to be created. A revamping of the Khadi and Village Commission was proposed to enlarge its area of operation. Share of small scale sector in footwear and soaps was proposed to be increased. Stress was given to develop and apply suitable technology in this sector in order to increase its productivity and enhance the earning capacity of its workers.

2) **Large Scale Sector:** The large-scale sector would cater to: (i) basic industries like steel, nonferrous metals, cement, oil refineries, etc. for providing infrastructure and help the development of small-scale and village industries; (ii) capital goods industries for meeting the requirements of supplying machinery for both basic and SSIs; (iii) high technology industries like fertilisers, pesticides, petrochemicals, etc. required for large scale production and for the use of agricultural and small-scale sectors; and (iv) industries like machine tools and organic and inorganic chemicals which were not in the reserved list for SSIs but were essential for economic development.

3) **Approach towards Large Business Houses:** The growth of Large Industrial Houses was considered disproportionate to the amount of their internally generated resources. With the borrowings from public financial institutions and banks making up for most of their assets, the Policy sought that no large business acquired a monopolistic position in the market.

4) **Public Sector Role Expansion:** The public sector would be the producer of basic goods both important as well as strategic. It would act as a stabilising force in maintaining essential supplies to the consumer and promote ancillary industries by extending technical/managerial expertise to the small-scale sector.

5) **Promotion of Technological Self-reliance:** Inflow of technology was proposed only in sophisticated and high priority areas was proposed where Indian technology had not adequately developed. In areas where

foreign technology was not further needed, renewal of foreign collaborations was discouraged.

6) **Approach Towards Sick Units:** Although the government accepted that it was necessary to protect employment in the sick units, the cost of maintaining them was also be taken into account. In other words, the process of financing sick units could not go on indefinitely.

Critics point out that products like biscuits, footwear, leather products, etc, which were supposed to be reserved for the small-scale sector were being produced by multinationals and large business houses. The large industrial houses were dissatisfied with the proposal that they had to generate resources internally rather than depending on financial institutions. No concrete steps were however taken to curtail the operation of multinational companies but were only asked to reduce their share under FERA.

9.2.3 Industrial Policy of 1980

The Industrial Policy of 1980 aimed at increasing industrial production through proper utilisation of installed capacity and expansion of industries so as to make more goods available to the Indian public at reasonable prices. The specific measures suggested in the Policy Statement are the following.

1) **Effective Operational Management of the Public Sector.** To re-establish the lost credibility of the public sector efforts to revive its efficiency were envisaged.

2) **Promotion of Economic Federalism:** Integrated industrial development, by removing the divisions between small scale and large scale industries, was proposed. For this, setting up of nucleus plants in backward districts around which ancillary, small and large scale industries would develop was proposed.

3) **Redefinition of Small Units.** Limit of investment in tiny units was raised from Rs. 1 lakh to Rs. 2 lakh, for SSIs from Rs. 10 lakh to Rs. 20 lakh and for ancillary units from Rs. 15 lakh to Rs. 25 lakh.

4) **Removal of Regional Imbalances:** Dispersal of industries to backward, rural and urban areas was proposed to remove regional imbalances. In the rural areas, handlooms, handicrafts and khadi were to be promoted so that higher employment as well as higher per capita income are generated.

5) **Regularisation of Unauthorised Excess Capacity in the Private Sector:** The Policy simplified the process of regularisation of unauthorised excess capacity. Installed capacities in excess of registered capacities in many industries, including the basic goods and goods of mass consumption, were regularised. However, for firms falling within the Monopoly and Restrictive Trade Practices (MRTP) Act and Foreign Exchange Regulation Act (FERA), this was not applied.

6) **Export Promotion:** For promoting exports, exemption of export oriented units from MRTP Act and allowing duty free import of capital goods and raw materials was envisaged.

7) **Promotion of Alternative Energy:** The manufacture of alternative sources of energy like solar energy, wind power, bio-gas, tidal power, etc. was delicensed.

8) **Industrial Sickness:** Specifying that deliberate mismanagement and financial impropriety would not be tolerated, genuine sick units were proposed to be merged with the healthy ones wherever possible.

The 1980 Policy was thus guided by the considerations of capital intensive growth with employment generation taking a somewhat backseat. It was largely free of criticisms. But a number of non-genuine cases availed of the benefits of regularisation of installed capacity. Despite the thrust in the small scale sector, it received 'residuary' treatment in the distribution of raw materials. As a result, industries did not disperse to the backward areas but remained concentrated in the developed regions.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What were the four broad heads under which the major features of the very first post-independence Industrial Policy Resolution of 1948 were outlined?

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2) What major changes that had taken place in India prompted the government to announce its second Industrial Policy Resolution of 1956?

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3) State the eight major heads under which the broad features of IPR, 1956 were outlined. Why did the IPR, 1956 did not receive a favourable response from the private industrialists?

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4) What are the broad elements of focus of the industrial policy of 1977? What particular view was taken by this policy towards the sick units?

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5) State the major measures proposed by the 'industrial policy of 1980'? How were the SSIs defined under this?

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6) Do you agree that the Industrial Policy of 1980 was employment promotive? Why?

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9.3 NEW INDUSTRIAL POLLICY, 1991

The New Industrial Policy, announced in July, 1991, was in line with the liberalisation measures announced in the eighties. Major deregulation measures announced in this policy are as follows.

1) **Industrial Licensing Policy:** The new policy abolished industrial licensing in nearly all fields except in 18 industries. This was done irrespective of the level of investment in the industries. The industries where licensing was to be continued included those related to security and strategic concerns, social sector, hazardous chemicals, environmental issues and items of elitist consumption. Licenses were also needed in certain industries like coal, alcohol, petroleum, sugar, cigarettes, hazardous chemicals, pharmaceuticals, etc. However, over the years, many industries have since been delicensed with, at present, only few items continuing to be under the licensing category. Some of these industries are: alcohol, cigarettes, hazardous chemicals, aerospace, etc.

2) **Policy on Public Sector:** The 1991 industrial policy reduced the number of reserved industries for public sector production from 17 (as mentioned in the 1956 Resolution) to 8. The industries reserved for the public sector included: (i) arms and ammunition; (ii) atomic energy; (iii) coal and lignite; (iv) mineral oils; (v) mining of iron/manganese/chrome ores; (vi) mining of copper/lead/zinc/tin; (vi) mining of gypsum/sulphur/gold/diamond; (vii) mining of copper, lead, zinc, tin, molybdenum and minerals specified in the schedule to the atomic energy order of 1953 and (viii) rail transport. Currently (2015), only five industries are under compulsory licensing mainly on account of environmental, safety and strategic considerations. These are: (i) distillation and brewing of alcoholic drinks; (ii) cigars and cigarettes of tobacco and manufactured tobacco substitutes; (iii) electronic aerospace and defence equipment: (iv) all types of industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches; and (v) certain specified hazardous chemicals.

   The policy also suggested that those public enterprises which are chronically sick and which are unlikely to be turned around will, for the formation of revival/ rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR) in order to protect the interests of workers.

3) **Monopolistic and Restrictive Trade Practice Limit:** Under the Monopolistic and Restrictive Trade Practice Act, all firms with assets above a certain size (Rs.100 crore since 1985) were classified as MRTP firms. Such firms were permitted only for selected industries and that too on a case to case approval basis. The New Industrial Policy removed the threshold limit in assets in respect of MRTP companies eliminating the requirements of prior approval. In the amended MRTP Act, emphasis has shifted to taking appropriate action against with monopolies now identified as those who control over 25 percent share of the market. The New Industrial Policy has therefore widened and strengthened the provisions of the MRTP Act.

4) **Policy on Foreign Investment and Technology Agreements:** In case of foreign technology agreements and foreign investment, earlier it was necessary to obtain specific approval for each project. This used to result in delays and government interference hampering business decision making. The New Industrial Policy allows automatic approval for foreign direct investment up to 51 percent foreign equity. The industries in which such automatic approval was granted included a wide range of industrial activities (e.g. capital goods, metallurgical, entertainment and electronic, food processing, etc.) having significant export potential. 100 percent foreign direct investment is allowed in: (i) Special Economic Zones (SEZs) for all manufacturing activities; (ii) investment in the power sector; (iii) oil refining; (iv) telecom sector for some activities; (v)

off shore Venture Capital Funds/Companies investing in domestic venture capital undertakings; etc.

5) **Removal of Mandatory Convertible Clause:** Since large part of industrial investment in India is financed by loans from banks and financial institutions, these institutions included a mandatory convertibility clause. The clause provided for the option of converting part of their loans into equity. This clause was interpreted as unwarranted by private firms who feared that it could lead to their undertakings taken over by the financial institutions. The new industrial policy provided for financial institutions to not impose the convertible clause.

The New Industrial Policy of 1991 thus proposed liberalising, globalising and privatising the industrial sector. Towards this end, three sets of reforms were introduced. These were: ONE, deregulation, de-licensing, decontrol and de-bureaucratisation of industrial licensing system; TWO, restriction of government interference through the MRTP Act; and THREE, initiation of several measures to facilitate foreign direct investment inflows. All these measures were launched in 1991 and since then, continued liberalisation measures have been introduced every year in each new budget.

9.4 TRENDS IN INDUSTRIAL PRODUCTION

The growth and structural changes in the Indian industrial sector over the plan period can be divided into the following distinct phases: (i) Phase I: 1950-51 to 1964-65; (ii) Phase II: 1965-66 to 1979-80; (iii) Phase III: 1980-81 to 1990-1; and Phase IV: 1991-92 onwards.

9.4.1 Phase I: 1951-65

At the time of independence, industries such as sugar, vegetable oils, cotton textiles, jute textiles, iron and steel and general engineering were dominant in terms of both value added and value of production. In terms of employment also the same industries were predominant. These industries covered 87 percent of the total value added and 86 percent of total employment. The average annual growth in industrial production was 5.7 percent in the period 1951-55 and 7.2 percent over the period 1955-60 (Table 9.1). The growth rates of production were marked for trends in: (i) since 1957 there had been a production shift towards metal, machinery and chemical industries; (ii) from the Second Five Year Plan onwards, the emphasis was on enhancing capacities in steel, aluminium, chemicals, fertilisers and petroleum products; and (iii) emphasis was also accorded during the second plan period to heavy electrical equipment, heavy foundry forge, heavy engineering machinery, etc. The allocation as a proportion of planned expenditure to these industries was 70 percent in the Second Plan and 80 percent in the Third Plan. Development in respect of oil exploration, coal and atomic energy was also undertaken in this period. The key role in industrial development in the Third Plan was assigned to the public sector with the aim making the economy self-sustaining in producers' goods industries such as steel, machine building, etc. so that the dependence on external assistance is reduced. Expansion of the production of consumer goods on a significant scale was proposed in the private sector. Thus, the high overall growth in industrial production witnessed during this phase could be attributed to the investments and outcomes in the basic and capital goods sector during the second and third plan periods.

Table 9.1: Growth in Industrial Production: 1951-1980 (%)

Use Based Classification	**1951-55**	**1955-60**	**1960-65**	**1965-76**	**1974-79**
1. Basic goods	4.7	12.1	10.4	6.5	8.4
2. Capital goods	9.8	13.1	19.6	2.6	5.7
3. Intermediate goods	7.8	6.3	6.9	3.0	4.3
4. Consumer goods	4.8	4.4	4.9	3.4	5.5
(a) Durables				6.2	6.8
(b) Non-durables				2.8	5.4
General Index	**5.7**	**7.2**	**9.0**	**4.1**	**6.1**

Source: S. L. Shetty, 1992.

9.4.2 Phase II: 1966-80

The period from 1965 to 1976 was marked for a sharp deceleration in industrial growth (from 9 percent during 1960-65 to 4.1 percent in 1965-76 (Table 9.1). The was marked by the phenomenon of 'structural retrogression' as evidenced by the performance of the most important group of goods from the long term point of view of industrial development viz. the capital goods industries. This group registered a consistent and considerable increase from 9.8 percent per annum in the First Plan to 13.1 percent in the Second Plan and to a further 19.6 percent in the Third Plan but slid down steeply to a low of 2.6 percent over 1965-76 and thereafter slightly improved to 5.7 percent during 1974-79. The various causes for this deceleration and retrogression were as follows.

1) **Exogenous Causes:** These were attributed to: (i) the two wars of 1965 and 1971; (ii) drought conditions in some years; (iii) infrastructural constraints and bottlenecks; and (iv) the oil crisis of 1973.

2) **Unsatisfactory Performance of the Agricultural Sector:** Low growth in the agricultural sector was also responsible for the slowdown of industrial sector by restricting the supply of raw materials on the one hand and by constraining the demand for industrial goods on the other hand.

3) **Slackening of Real Investment:** There was a considerable slackening of real investment particularly in Phase II in the public sector affecting the

growth in the industrial sector. In fact, not only was there a reduction of public investment but also private investment due to 'loss of stimulus' for investment.

4) **Income Distribution and the Demand Factor:** Due to extreme inequalities of income and wealth, the market for industrial goods was limited to the top 10 percent of the population. Thus, once the demand for this section of the population got saturated, not only the further expansion in demand was constrained but it also limited the demand for consumption goods. This, in turn, limited the demand for machinery and capital goods.

5) **Policy Constraints on Industrial Growth:** Wrong industrial policies, complex bureaucratic system of licensing, irrational and inefficient system of controls, etc. have also been identified as factors contributing to the above industrial deceleration.

9.4.3 Phase III: 1981-91

The third phase of industrial growth covers the period of eighties spanning over the two plan period of Sixth and Seventh. This is the period of 1980s which experienced industrial recovery. During the first half of this period viz. 1981-85, the average annual rate of growth of industrial production accelerated to 6.4 percent which further increased to 8.5 percent during 1985-90. The momentum was maintained in 1990-91 when the annual rate of industrial growth was 8.3 percent (Table 9.2). The capital goods industries recorded 6.2 percent annual rate of growth during 1980-85 which experienced a steep increase in its growth rate to 14.8 percent in 1985-90 and then further improved its performance to register 17.4 percent in 1990-91.

Table 9.2: Growth in Industrial Production during Eighties (%)

Use Based Classification	1981-85	1985-90	1990-91
1. Basic goods	8.7	7.4	3.8
2. Capital goods	6.2	14.8	17.4
3. Intermediate goods	6.0	6.4	6.1
4. Consumer goods	5.1	7.3	10.4
(a) Durables	14.3	11.6	14.8
(b) Non-durables	3.8	6.4	9.4
5. General Index	6.4	8.5	8.3

Source: Hand Book of Industrial Statistics, 1992.

The growth rate for consumer durable goods also was a high 14.3 percent in 1981-85 but slid down somewhat to 11.6 percent in 1985-90 but recovered to register a growth of 14.8 percent in 1990-91. The basic goods industries maintained the annual average growth rate of 8.7 and 7.4 percent during

1981-85 and 1985-90 respectively but steeply declined to 3.8 percent in 1990-91. The main factors identified as responsible for the industrial recovery during eighties are as follows.

1) **Introduction of New Industrial Policy and Liberal Fiscal Period:** Liberalisation of the industrial and trade policies by the government is the main factor responsible for the industrial recovery during 1980s. Domestic barriers to entry and expansion were reduced, facilities for better access to technology and intermediate material inputs were provided and a liberal fiscal regime also gave the required stimulus for recovery.

2) **Contribution of the Agricultural Sector:** Additional demand for industrial goods was generated due to the increased prosperity of farmers in certain regions of the country.

3) **Growth of Service Sector:** There was a significant increase in government spending on all services in the 1980s, particularly defence and public administration. As a result, consumer goods demand and hence their production increased pushing up the rate of industrial growth.

4) **The Infrastructure Factor:** There was a revival in investment in the infrastructural sector in the eighties. The availability of better infrastructure contributed to raising the degree of efficiency of the industrial sector.

9.4.4 Phase IV: Post-1991

Due to the balance of payments crisis in the 1990s, output dipped in 1991-92, but boomed for four years after that, peaking in 1995-96 (Table 9.3). This was followed by a steep deceleration for seven years until 2002-03. A second boom took place for another four years from 2003-04 to 2007-08. During the 19 years since 1991-92 (i.e. 1992-2010), consumer durables grew the fastest at 9.3 percent per year followed by capital goods at 8.1 percent per year. The Indian economy experienced a high growth in the service sector in the post reform period, the share of which rose from 44 percent of GDP in 1991-92 to 57 percent in 2009-10. During the same period, the share of the agricultural sector declined from 33 percent to 17 percent and that of the industrial sector increased modestly from 23 percent in 1991-92 to 26 percent in 2009-10.

Industrial growth which was very low in 1991-92 (less than 1 percent) started picking up from 1993-94 reaching a high of 13 percent in 1995-96 but then again declined to around 5.5 percent in 1998-2000. Notwithstanding these intermittent ups and downs, the overall growth of Indian industries over the 10-year period of 1995-2005 and the subsequent 7-year period of 2005-13 has been an uniform 6.8 percent growth average annual (Table 9.3). Among the factors identified as responsible for this ‘less than the desired growth’ are:

Industrial Sector

- Industrial growth did not take place as expected since the growth in the labour intensive industries did not increase and hence industrial employment and output remained the same.
- Due to lack of adequate infrastructure, export credit and unsuitable macroeconomic policy environment, India's exports were restricted to skill and technology-intensive products, although it possessed competitiveness to produce and export a large number of other products.
- Some of the other factors responsible for the decline in the industrial growth rate are: (i) decline in the growth of exports in 1997; (ii) tight money policy followed in 1995-96; and (iii) quick saturation of pent-up domestic demand.

Table 9.3: Growth of Industrial Production Post Liberalisation (%)

Use Based Classification	**1991-92 to 2000-01**	**2001-02 to 2009-10**	**1991-92 to 2009-10**
1. Basic goods	5.9	5.8	5.9
2. Capital goods	3.6	12.6	8.1
3. Intermediate goods	7.7	5.9	6.8
4. Consumer goods	5.7	8.0	6.8
(a) Durables	9.2	9.5	9.3
(b) Non-durables	4.8	7.6	6.2
General Index*	**6.8**	**6.8**	**-**

Source: RBI, 2012-13, p-80 and Bhat, T. P. (2013)

Note: * The two General Indices' growth rates are for the periods of 1995-05 (base 1993-94 = 100) and 2006-13 (base 2004-05 = 100) respectively.

Thus, the Indian manufacturing sector did not perform well as some other emerging economies mainly due to certain structural distortions. These distortions are: (i) problems with reallocation of labour across sectors; (ii) excessively small scale firms; (iii) low firm turnover, (iv) poor market orientation; (v) persistent state ownership; etc.

The reforms during the succeeding years have, however, increased the effective competition in the domestic market with easier imports and entry of new firms. There has been a decline in the relative price of capital goods making fixed investments more productive. This indicates that there has emerged a buyers' market in industrial goods with improved quality, variety and after-sales service of these goods. Production efficiency has increased which has helped in facing competition from China. The competitive pressure has spurred innovation and product development. The ability of Indian industries to acquire and manage factories and firms in developed economies in relatively advanced manufacturing industries shows their growing strength and stature.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) What are the five broad categories in which the New Industrial Policy of 1991 specified its features?

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2) Which were the industrial groups that were retained for public sector production in the NIP of 1991? Which are the only three industries that are since left for public sector?

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3) State the three sets of reforms which broadly signify the NIP of 1991.

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4) What were the areas in which the First Phase of industrial development received a major thrust?

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5) What are the broad caused to which the deceleration of Indian industrial sector attributed in its second phase of development?

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6) To what factors the industrial recovery witnessed in the third phase of Indian industrial developed attributed?

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9.5 COMPETITION COMMISSION OF INDIA

The Competition Commission of India (CCI) was set up to replace the anachronistic Monopolies and Restrictive Trade Practices Commission (MRTPC). It was established to eliminate practices that adversely affected competition in different industries and thereby protect the interests of consumers. The Competition Act of 2002 was enacted to foster a spirit of competition for excellence by establishing a level playing field by transparent procedures and practices. The Act called for the creation of a Competition Commission of India (CCI). Established in 2003, it became fully functional only by 2009. The CCI is a quasi-judicial body with its specific function as follows:

- play the role of a market regulator to curb anti-competitive behaviour that may distort competition;
- prohibit the abuse of dominant position by an enterprise or group;
- regulate the Merger and Acquisitions that may cause adverse effect on competition; and
- create awareness and impart training on competition issues through advocacy.

In the seven years of its functioning, the CCI has made its presence felt in various industries as diverse as cement, automobiles, pharmaceuticals, real estate, and information technology-enabled services. The Government must also be given credit for not interfering in the functioning of the CCI given the high stakes involved in mergers and acquisitions. However, in several cases the legality of CCI orders has been questioned leading to a debate on the nature and objective of the quasi-judicial regulator. The Competition Appellate Tribunal (COMPAT) has struck down several CCI orders mainly for violation of the principle of natural justice that provides everyone a fair hearing before law. There are also concerns regarding validity of CCI as it may infringe upon the functional domain of other sector specific regulators like the RBI and SEBI.

Future challenges before the CCI includes streamlining its processes to reduce the time taken to clear merger filings. Initially, it took less than 30 days, but because of the increasing number of applications, the time taken has doubled. Since the CCI is being seen as a hurdle in doing business in India, it has to establish itself as its role is to promote fair competition in the market.

9.6 LET US SUM UP

Since the inception of planning several industrial and trade policy reforms have been introduced aimed at making the Indian industries more competitive internationally. A number of industries have acquired the technical expertise needed to set up and operate firms worldwide. These industries have further gained access to superior technology abroad enabling them to enhance their domestic capabilities. However, the industrial sector has not been able to generate employment as many of these industries are not labour intensive. A notable feature of industrial growth has been 'a faster decline in the share of agriculture in the GDP compared to the earlier decades' and a steep 'increase in the corresponding share of the services sector'. Post liberalisation, many restrictions on the industries have been done away with. As a result, the economy has been opened up to make the industries more competitive. Thus, the industrial sector has been evolving and adapting to the changes within the economy as well as internationally.

9.7 KEY WORDS

Industrial Policy Resolution	:	These are policy documents issued from time to time to streamline the growth of the Indian industries in a desired direction. The policies have aimed at developing a strong public sector base for capital goods production and encouraging the private sector to gain excellence in the consumer goods segment in the private sector.
Competition Commission of India	:	A post-liberalisation institutional arrangement to foster healthy competitive environment for the industries by establishing a level playing field with transparent policies and practices and especially to curb anti-competitive practices.

9.8 SOME USEFUL BOOKS AND REFERENCES

1) Bhagwati, J and Desai, P (1970). India: Industrialisation. Oxford University Press, Delhi.

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3) RBI (2013). Handbook of Statistics on the Indian Economy, 2012-13.

4) Shetty, S. L. (1978). Structural Retrogression in the Indian Economy since the Mid-Sixties, Economic and Political Weekly.

5) Thakur, B, Gupta, R. & Singh, R. (2012). Changing Face of India's Industrial Policies: A Look, International Journal of Scientific and Research Publications, Volume 2, Issue 12.

6) Bhat T. P. (2013). Growth and Structural Change in Indian Industries, Institute for Studies in Industrial Development (ISID), 2013/2.

9.9 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Division of Industries, role of foreign capital, cottage and SSIs, labour policy.

2) Completion of First FYP, enactment of IDRA (1951) and adoption of 'socialistic pattern of society' as the goal.

3) Because they were apprehensive of the major role assigned to the public sector.

4) That the process of financing sick units could not go on indefinitely.

5) Effective operational management of public sector, promotion of economic federalism, etc.

6) No, as industries did not disperse to the backward areas but remained concentrated in the developed regions.

Check Your Progress 2

1) Policy of industrial licensing, policy on public sector, etc.

2) Alcoholic drinks, cigars, aerospace, industrial explosives and hazardous chemicals.

3) 4 D's: deregulation, decontrol, etc., restricted government interference, facilitation of FDI inflows.

4) Basic capital goods in the public sector.

5) Exogenous causes, poor performance of agricultural sector, etc.

6) Introduction of NIP and liberal fiscal regime, etc.

UNIT 10 SMALL SCALE INDUSTRIES[*]

Structure

10.0 OBJECTIVES

After reading this unit, you will be able to:

- define small scale industries (SSIs);
- outline the classificatory framework for the SSIs in India;
- explain the theoretical rationale for the promotion of SSIs;
- discuss the policy initiatives to promote the SSIs in India;
- analyse the growth and performance of SSIs;
- examine the policies and programmes to remove the disabilities of the SSIs;
- describe the changes in the SSI sector in the MSMED Act of 2006; and
- outline the steps being taken to assist the ‘small and tiny enterprises’ segment of the SSI sector in the New Industrial Policy of 2017.

10.1 INTRODUCTION

As noted in Unit 9 before, both the IPRs launched immediately after independence (i.e. IPRs 1948 and 1956) recognised the importance of

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promoting SSIs in India. Even the subsequent two policies (viz. of 1977 and 1980) reiterated this need. As a result, the Indian small scale industry (SSI) sector had grown impressively since independence with ample protection from the government and the various sponsoring agencies within the broad guidelines of the Industrial Policy Resolutions. Promotional policies relating to information, consultancy, entrepreneurship development, training, modernisation and technology support, industrial estates, raw materials, marketing, finance, reservation, ancillary development, quality control, etc. have been consistently provided for the sector. Special schemes of assistance have been launched for 'women entrepreneurs'. Vast institutional set-ups, by way of Small Industries Development Corporation (SIDC), have been established and are assisted by the IDBI in respect of marketing, supply of essential raw materials, machinery on hire purchase basis, establishing industrial estates, etc. Concessional rates of excise duties and simplifying procedures are among the other forms of assistance extended to the SSI sector.

The share of 'micro, small and medium enterprises' (MSME) to manufacturing output is at present 45 percent. Its contribution to the total exports of the country is 40 percent. It employs about 69 million in a total number of units also estimated at 69 million. The employment of 69 million is from both the registered and unregistered units taken together.

10.2 CLASSIFICATION OF SSIs IN INDIA

In India, the SSIs are classified into traditional and modern units. The former includes: (i) khadi; (ii) handlooms; (iii) village industries; (iv) handicrafts; (v) sericulture; and (vi) coir. These are basically labour-intensive whereas the latter (i.e. modern units) includes wide ranging and sophisticated products like electronic and engineering goods. Another distinctive feature of these two type of classification is on the basis of their 'employment criteria' i.e. the characteristic of 'hired labour' in the units. While the former are basically carried out by family labour (hence also called as Own Account Enterprises), the modern units usually employ 'hired labour'. The modern units serve as ancillary industries to large scale establishments which use capital intensive technology.

Another classificatory framework for the SSIs is based on the investment made in plant and machineries (P & M) i.e. the 'investment criteria'. This definition is thus prone to changes over time since the ceiling on investment has to be revised from time to time owing to changes in prices. Table 10.1 gives a profile on this definition of SSIs over a period spanning three and a half decades. As per this classification, a separate category of 'ancillary units' was specified with a slightly higher ceiling on investment in P & M. This distinction in the higher limit set for ancillary unit than a 'small scale unit' sets the former apart as units with a higher technological capacity feeding into the large scale sector. In 2006, the Government reclassified the SSI units into three categories viz. (i) tiny enterprises (with investment of up to Rs. 25 lakhs); (ii) small enterprises (with investment between 25 lakhs and 5 crores); and (iii) medium enterprises (with investment between 5 crores and 10 crores). It also brought into force a new Act called the 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006'. The Act envisaged the growth of small units over time so that they can grow into medium units. It is significant to note that the 'tiny enterprise sector' provides employment to 92 percent of entire employment in the SSI sector.

Table 10.1: Investment Limits (Rs) in SSIs

Year	Small Scale Unit	Ancillary Unit
1966	7.5 lakhs	10 lakhs
1975	10 lakhs	20 lakhs
1980	20 lakhs	25 lakhs
1985	35 lakhs	45 lakhs
1990	60 lakhs	75 lakhs
1997	3 crores	3crores
2000	1 crore	1 crore

Source: Ministry of MSME.

The traditional industries, operated mostly as OAEs, cannot provide full time employment to workers. Such enterprises could only provide part time employment to one or two agricultural labourers and artisans who were mostly underemployed and living below the poverty line. However, handicraft industries (an important segment of traditional industries) provide maximum labour productivity besides earning considerable foreign exchange. Modern industries, on the other hand, provide better employment opportunities both in terms of income and stability. In light of this, both the traditional industries and the modern small scale units need to be encouraged both for the sake of their employment potential as also their traditional value linked to export or foreign exchange dimension.

10.3 RATIONALE FOR PROMOTION OF SSIs

Theoretically, the rationale for the promotion of SSIs comes from the concept of economic dualism (i.e. a large informal sector and a small formal sector) closely associated with labour surplus economies. Typically, in such economies, there exists in some sectors a large supply of unskilled labour working in conditions of low capital, low technology and low wages. In such sectors, labour markets do not clear i.e. wage is not equated to marginal product or labours' remuneration will be below the subsistence level of consumption. In other words, a good part of the labour force works at low levels of labour productivity contributing to output lower than the efficiency levels. If such 'surplus labour' can be reallocated to other sectors of the economy, then it will reduce the inefficiency in the system. However, the classical two-sector growth model assumes that the agricultural sector produces such goods for which the consumer demand from the non-agricultural sector does not grow as rapidly as their income. Hence, with the growth of the economy, the importance of the agricultural sector declines both in its contribution to output and in employment generation. And, as growth picks up, the industrial sector expands rapidly aided by investment and capital accumulation. Consequently, surplus labour from the agricultural sector is reallocated to industry. When the entire surplus labour is absorbed i.e. once growth reaches this important turning point, real wages begin to move upward and the industrial sector starts assuming a capital-intensive character.

In reality, however, the growth experience of most less developed countries have not conformed to the above mentioned growth path although a preference for capital intensity is seen in most developing countries regardless of which stage of development they are in. Even in countries (i.e. those developing economies) where the industrial sector has expanded rapidly, it has not been able to absorb the entire surplus labour force from agriculture. This is due to the inherent bias for capital-intensive technology leading to low absorption of surplus labour from agriculture mainly largely unskilled. Such a situation cannot therefore be completely explained by the classical two-sector growth model in which there is little importance for the small-scale sector. Ho and Huddle (year) provide an alternative explanation to development for such economies in their transition in which the potential role of the small-scale and traditional industries is recognised. They believe that given the particular characteristics of the SSIs, they can contribute significantly by absorption of surplus labour and thereby reduce the inequality in the distribution of gains. Thus, in the model proposed by Ho and Huddle, surplus labour released by agriculture is absorbed by the small-scale sector reducing the reallocation cost of labour. Further, most enterprises of the small-scale sector drawing their resource base from the agro products would have a rural base. Thus, the development of the small-scale sector contributes to complement the process of transformation in the developing countries. In particular, the small scale sector can make significant contributions in terms of the following.

1) **Employment Creation:** In the developing countries, the growth of large-scale industries are mostly capital intensive with low employment generation to the unskilled. Since the small-scale sector is not as capital-intensive as the large scale sector, it has higher employment content. In other words, more employment would be created for a given amount of investment in the small-scale sector than in the large scale sector. However, the small-scale sector has relatively low value added per worker and low wage rates. But with large surplus labour to be absorbed, even the low wage rates in SSIs would be higher than the possible

earnings in the agricultural rural economy. Thus, the small-scale sector can act as a conduit by providing productive employment to a large rural population helping in the distribution of the gains from development over a broader base.

2) **Balance in Geographic Distribution:** In developing countries, the geographical distribution of economic activities is uneven resulting in regional inequality in income distribution. This causes migration of labour from backward regions to the relatively developed regions. Empirical evidence shows that the absorption of migratory labour in the industries has typically been low relative to the magnitude of migration and thereby the growth in the labour force. Moreover, it is the young and the more educated who migrate leaving behind a poor quality of labour force in rural areas. Rural poverty and stagnation are thus the consequences of such regional imbalance. A diversified geographical and industrial structure, as a result of the SSI sector's expansion, can therefore provide a solution to the problem. In other words, the small-scale sector can serve to moderate the destabilising effect by balancing the uneven distribution of employment opportunities in the economy.

3) **Trade and Export Potential:** As per the neoclassical theory of comparative advantage, industrial and manufactured goods flow from the developed countries to the developing ones, and that of agricultural products from the developing countries to the developed ones. Such a pattern of trade leads to exploitative benefits for the developed countries at the cost of the developing nations. In such a scenario, a promising avenue for growth can be the expansion of exports of light manufactured goods produced by the labour-intensive small-scale sector, particularly for goods with a distinctive cultural character like the handicrafts.

10.3.1 Policy Initiatives

In line with the above rationale, the IPR, 1956 put forth four specific arguments in support of promotion of SSIs. These are:

1) **The Employment Argument:** Excepting in the sectors of capital goods industries, small enterprises would help to enlarge the volume of employment as they are supposedly labour-intensive. An implicit argument here is that employment should not be created for the sake of employment and utilisation of scarce resources productively should be the prime objective.

2) **The Equality Argument:** Small enterprises bring about greater equality of income distribution as the income benefit is derived by not only a large population but also the population who need income the most. A counter argument is that, small enterprises by paying lower wages generate less savings and less taxes and hence result in lower growth potential.

3) **The Latent Resource Argument:** Small enterprises are able to tap latent resources like hoarded wealth, entrepreneurial ability, etc. The counter argument is that mobilisation of hoarded wealth is only a onetime gain.

4) **The Decentralisation Argument:** In order to benefit from modern industrialisation, such units must be encouraged to come up in smaller towns and the countryside. For this, a group of villages can be selected to start small enterprises to cater to the needs of the small area from the local centre. Such an approach would decentralise the benefits of development generating non-farm employment avenues in the rural areas.

The following factors can therefore be reiterated to provide the ideological rationale for the promotion of SSIs in India:

1) **Decentralised Growth:** Promotion of cottage and small industry helps to re-organise the socio-economic structure on a decentralised basis with a focus on the development of village level communities.

2) **Relief Oriented:** The idea of welfare state and employment potential combined with the motive of aiding income generation is behind this factor.

3) **Economic:** In a country where capital-labour ratio is low, economy should be exercised in the use of capital. The objective here is therefore to maximise the utilisation of labour, generate income to the employed, and minimise the capital to income ratio.

4) **Diversification of Entrepreneurial Base:** The policy of fostering entrepreneurs from amongst the members of different castes, classes and professions who have not had the opportunity to contribute to entrepreneurship in India (e.g. the scheduled caste, scheduled tribes, backward classes, poor classes, even technicians and other professionals) is itself a noble objective both to diversify the industrial base as also to harness on inherent and untapped entrepreneurial abilities.

Finally, the output-employment ratio for the small scale sector being 1 : 1.4, the growth of the SSI sector carries the potential to improve the growth in the non-durable mass consumption products, acting as an anti-inflationary force. A big push in the small scale sector can therefore result in a stabilising effect in a capital scarce country like India by providing higher ‘output to capital’ and higher ‘employment to capital’ ratios. The capacity utilisation in most of the small scale industries being very low, the untapped capacity provides scope for productive expansion of the sector.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What are the six constituents of the traditional SSI sector? In which particular respect, are they distinguishable from their 'modern units' counterpart?

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2) What are the two criteria on the basis of which the SSIs are classified? What are OAEs and in what way are they different from the bigger SSI units?

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3) What is the reclassification made by the government in 2006 and what is its particular feature that makes it different from the earlier classificatory framework?

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4) What feature of the 'handicrafts sector' and the 'modern industries sector' makes it important to promote both simultaneously in India?

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5) State the four broad grounds on which the IPR, 1956 argued in support of the promotion of SSIs. In particular, identify the argument to indicate how the non-farm employment avenues is expanded by its attention.

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6) Do you agree that the promotion of small scale sector acts as an anti-inflationary force? How?

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10.4 GROWTH AND PERFORMANCE OF SSIs

The SSI sector in India, has played a very important role in the Indian economy. It had grown tremendously over the years contributing to output and employment growth. The number of registered units have steadily increased from 16,000 in 1950 to 36,000 in 1961 and to 33.7 lakhs in 2001. In 2013-14, the number of units stood at 499.5 lakhs. The Ministry of MSMEs, Government of India, collects data on 'registered units' based on census and for 'unregistered units' based on sample survey. The first SSI Census was conducted in 1972-73, followed by the second Census in 1987-88. The third Census was carried out in 2001-02 and the fourth Census in 2006-07 (the last after the enactment of MSMED Act).

Initially, the government followed a policy of reservation of items which were to be produced in the small scale sector only. There were 177 items in the reserved list in 1972 which went up to 837 in 1983. Later, however, the government started de-reserving items from 1991 onwards. As a result, in 2007, the number of items in the reserved list stood at 239.

The growth of SSI units and their performance in respect of employment, output and exports (in the pre-liberalisation and liberalisation periods – up to 2006/07) is presented in Table 10.2. In terms of units and employment, the growth rate of SSI has declined on average between the two periods but in terms of output and exports there is a marginal improvement. The growth of SSI units first declined in the 1980s as compared to the 1970s. It declined further in the 1990s but remained more or less constant in the 2000s *except in terms of output* in which there was a steep increase. Such steep increase in output can be attributed to the low base effect in the 1990s. The factors behind this poor performance in the 2000s are identified as follows.

Table 10.2: Growth of SSI Units

Period	Growth rate (%)			
	Units	Employment	Output	Exports
Pre-liberalisation (1973/74 to 1989/90)	9.7	7.1	3.7	12.1
Liberalisation (1990/91-2006/07)	4.1	4.3	4.3	12.6
1970s	11.2	8.7	3.4	14.0
1980s	8.5	6.0	3.9	10.7
1990s	4.6	4.2	0.1	12.9
2000s	4.6	4.6	11.8	12.2

Source: Ministry of MSME.

- First, due to the threat of competition, new SSI units did not come up in the liberalisation period in comparison to the pre-liberalisation period. This adversely affected employment generation.
- Second, the units that came up in the liberalisation period were more capital-intensive than those in the earlier periods leading to lower employment generation. Further, technological up-gradation and modernisation by the existing units also led to reduced demand for labour.
- Third, SSI units which were lacking in infrastructural facilities and were unable to become competitive became sick and withdrew from the market pushing the output and employment down.

10.4.1 Policies and Programmes to Remove Disabilities

As noted above, many of the small scale industries have closed down over the years. The reasons for their closure, rounded to nearest integer, broadly fall under three heads viz. financial problems (35 percent), marketing difficulties (14 percent) and non-availability of raw materials (6 percent). The measures to counter the problem may therefore be grouped under the following.

1) **Credit and Finance:** Banks do not want to advance credit to the SSIs because the latter are not always in a position to repay. The internal resources of SSIs are so meagre that they cannot sustain on it, in times of business slowdown. The evolution of an integrated credit system is needed whereby long-term capital and short-term credit are adequately provided at a reasonable rate of interest.

2) **Marketing Assistance:** The products of SSIs being non-standardised and of variable quality, are often hard to market. The government has a task to provide required assistance to bring producers and dealers into close contact so that imperfection is eliminated.

3) **Allocation of Raw Materials, Imported Components and Equipment:** It is observed that the SSIs have not proportionately received a fair share of supply of raw materials. The Government has, therefore, started giving priority in raw materials allocation to the small scale sector.

4) **Technical Assistance:** SSI development is often hampered due to low level of technology and shortage of trained and experienced personnel. Provision of technical service is essential to stimulate increased productive efficiency. Encouraging new product lines is another need as the small scale sector lacks in that.

5) **Industrial Estates:** Industrial estates like provision of good accommodation and other basic facilities on a rental basis to those entrepreneurs who are unable to do afford are needed to establish a level playing field among the different economic class of entrepreneurs.

The liberalisation policy has paved ways for large industries to enter the sector reserved for SSI units. The approach to the 11th plan (2007-12) suggested total de-reservation of items reserved for SSIs.

10.5 MSMED ACT, 2006

Within the small scale sector, till 2000, there were classification only for small scale units and tiny units. No classification for medium scale enterprises were there. In 2006, an Act named ‘Micro, Small and Medium Enterprises Development (MSMED) Act’ came into force whereby the growth of small enterprises were facilitated so that they could graduate into medium enterprises thus improving their competitive strength. The MSMED Act is a watershed in the sector of small industries as they now get much more benefits than before under the purview of the Act. Since 2006-07, the name of the Ministry of Small Scale Industries is changed as Ministry of Micro, Small and Medium Enterprises. The service sector enterprises working at small scale are also included in the MSME sector. In the latest Annual Report of the Ministry, composite figures are given. The 4th census of MSME has estimated that 67 percent of MSME are manufacturing units and 33 percent are service enterprises.

10.5.1 Classification

As per the MSMED Act (2006), units are classified as: (i) Manufacturing Enterprises; and (ii) Service Enterprises. Manufacturing Enterprises are defined in terms of investment in ‘Plant and Machinery’ and the Service Enterprises are defined in terms of investment in ‘tools and equipment'. In case of the manufacturing enterprises, investment in plant and machinery refers to the original cost excluding land and building.

Table 10.3: Investment Limits Under MSMED Act

Manufacturing Sector/Enterprises	
Enterprises	**Investment in Plants & Machinery (in Rs.)**
Micro and Tiny Enterprises	Less than 25 lakh
Small Enterprises	25 lakhs to 5 crores
Medium Enterprises	5 crore rupees to 10 crore
Service Sector/Enterprises	
Enterprises	**Investment in Equipments (in Rs.)**
Micro Enterprises	Less than 10 lakh
Small Enterprises	10 lakh to 2 crores
Medium Enterprises	2 crores to 5 crores

Source: Ministry of MSME.

10.5.2 Benefits

The benefits offered to the MSMEs are as follows.

1) The major benefit for MSMEs is the reservation of certain items, for the exclusive manufacture by these enterprises. This protects their interests providing impetus for generating employment. As many as 350 items are reserved for purchase from MSMEs under the Government Stores Purchase Programme.

2) The SEZs are required to allocate 10 percent space for the small-scale units.

3) Protections is offered for timely payment by the buyers to the MSMEs.

4) There are also policies for preferential access to credit and purchase policy. These are offered as packages of schemes and incentives through specialised institutions in the form of assistance in obtaining finance, help in marketing, technical guidance, training and technology up-gradation, etc.

5) An enterprise whose 'post-issue face value' does not exceed Rs. 25 crores is entitled to certain exemptions from the eligibility requirements under the ICDR (issue of capital disclosure requirement) Regulation.

Items exclusively reserved for production by MSMEs include: pickles and chutneys, bread, mustard oil, ground nut oil, exercise books and registers, wooden furniture and fixtures, candles, laundry soap, safety matches, fireworks, agarbattis, glass bangles, steel almirahs and stainless steel and aluminium utensils. They can also be manufactured by Large/Medium units provided they undertake to export a minimum of 50 percent of the annual production. Such exports are to be made within a maximum period of three years from the date of commencement of commercial production of such reserved items.

10.5.3 Priority Lending Sector

The MSME sector now has greater access to credit as a result of its classification as a priority lending sector. Banks are required to compulsorily ensure that specified percentage (currently 40 per cent of net bank credit for domestic commercial banks and 32 percent for foreign banks) of their overall lending is made to priority sectors, like agriculture, small enterprises, retail trade, etc. Public sector banks are advised to open at least one specialised branch in each district for this purpose. A '*cluster based approach*' to lending is provisioned to provide comprehensive service so as to cater to the diverse needs of the MSME sector. Such an approach is helpful in *risk sharing* as the strengths of well performing units stabilises the overall performance of the cluster to an extent. The approach is, however, aimed at achieving extended banking services to recognised MSME clusters. Banks are especially advised to open MSME focussed branch offices at different MSME clusters to act as counselling centres for MSMEs. Each lead bank of the district is advised to adopt at least one MSME cluster.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) State the three factors responsible for the low performance of SSI units during the 1980s and 1990s as compared to the 1970s.

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2) Over the period of 2000s, as compared to the 1990s, do you agree that there has been a near stagnancy in the growth of SSIs? Give reasons for your answer.

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3) Among the reasons for the low performance of SSIs in 1980s and 1990s over that in 1970s, which are the three factor that accounted for it in a major way (i.e. accounting for more than 50 percent of all the factors)?

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4) In which respect, the MSMED Act, 2006, made a new provision to improve the competitive strength of MSME units?

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5) What are the benefits extended to the MSME units under the new MSMED Act?

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6) In what way the 'cluster based approach' to lending is more beneficial to the MSME units?

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10.6 INDUSTRIAL POLICY FOR SMALL AND TINY ENTERPRISES, 2017

A separate package for the promotion of 'Micro and Tiny Enterprises' is introduced in 2017. While the small scale sector (other than 'Tiny Enterprises') would be mainly entitled to one-time benefits (e.g. preference in land allocation, power connection, access to facilities for skill/technology upgradation, etc.), the ‘tiny enterprises’ would be eligible for additional support on a continuing basis, including easier access to institutional finance, priority in the government purchase programme and relaxation from certain provisions of labour laws. Some of the areas in which renewed efforts are made are the following.

Measures for Financial Support: Emphasis for credit access would henceforth be shifted from subsidised/cheap credit to ensuring adequate flow of credit with quality of delivery particularly for the viable operations/units of this sector. For this, a special monitoring agency would be set up to oversee that the genuine credit needs are fully met. Further, to provide access to the capital market and to encourage modernisation and technological upgradation, equity participation will be allowed by other industrial undertakings in the MSME sector. Such participation shall be limited to 24 percent of total shareholding. To solve the problem of ‘delayed payments’ to small industries, a suitable legislation is proposed to be introduced to ensure prompt payment of Small Industries’ bills.

Infrastructural Facilities: To facilitate location of industries in rural/backward areas and to promote stronger linkages between agriculture and industry, a new Scheme of Integrated Infrastructural Development for Small Scale Industries is proposed to be launched with the active participation of state governments and financial institutions. A Technology Development Cell (TDC) would be set up in the Small Industries Development Organisation (SIDO) to provide inputs for improving productivity and competitiveness of the products of the small scale sector. Adequate and equitable distribution of indigenous and imported raw materials would also be ensured to the small scale sector, particularly the tiny sub-sector. An adequate arrangement for delivery of total package of incentives and services (at the district level) will be evolved and implemented.

Marketing and Exports: In spite of the vast domestic market, marketing remains a problem area for small and tiny enterprises. Marketing support would therefore be provided with market promotion undertaken by cooperative/public sector institutions and specialised/professional marketing agencies. Further, the National Small Industries Corporation (NSIC) would help in marketing of mass consumption items under a common brand name with organic links between NSIC and ‘micro, small and medium enterprises development councils’ (MSMEDCs). Though the Small Scale Sector is making significant contribution to total exports (both direct and indirect), a large potential remains untapped. An Export Development Centre would be set up in SIDO to serve the MSMEs through its network of field offices for augmenting the export activities.

Modernisation, Technology and Quality Upgradation: A greater degree of awareness to produce goods and services conforming to national and international standards would be created among the small scale sector.

Industry Associations would be encouraged and supported to establish quality counselling and common testing facilities. Technology Information Centres would be established to provide updated knowledge on technology and markets. Where non-conformity with quality and standards involves risk to human life and public health, compulsory quality control would be enforced. A reoriented programme of modernisation and technological upgradation aimed at improving productivity, efficiency and cost effectiveness in the small scale sector would be pursued. Indian Institutes of Technology (IITs) and selected Regional/other Engineering Colleges will be associated to serve as Technological Information, Design and Development Centres in their respective command areas.

Promotion of Entrepreneurship: Government will continue to support first generation entrepreneurs through the Entrepreneurship Development Programmes (EDP). Industry Associations would be encouraged to participate in this as a collaborative venture. EDP would also be built into the curricula of vocational and other degree level courses. Women entrepreneurs will receive support through special training programme.

Simplification of Rules and Procedures: The persistent complaint of small scale units of being subjected to a large number of Acts and Laws (requiring to maintain a number of registers and submission of returns), and face an army of inspectors, would be addressed. Procedures would be simplified and bureaucratic controls reduced. Paper work would be cut down to the minimum to enable the entrepreneurs to focus on production and marketing functions.

Village Industries: Schemes for the 'handloom sector' will be redesigned keeping in mind the local and regional needs. Constraints of coverage will be removed to include bulk of the weavers who are outside the corporate/cooperative fold. Existing schemes will be re-drawn and suitably revised under three major heads: (i) Project Package Scheme; (ii) Welfare Package Scheme; and (iii) Organisation Development Package. For improving the marketing of handloom products, implementation of schemes for design and product improvement by national level publicity, exhibitions, and design exercise will be undertaken.

In the 'handicrafts sector', efforts will be made not only to preserve the traditional richness of the crafts but also to engage the hereditary skills of the craftsmen to suit modern requirements. Emphasis will be given on: (i) extension of services like supply of raw materials; (ii) design and technical guidance; (iii) market support; (iv) training and procuring of related materials/inputs in an integrated and area-based manner; etc.

Check Your Progress 3 [answer within the space given in about 50-100 words]

1) How are the 'Micro and Tiny Enterprises' brought under a distinctly different policy focus under the 'New Industrial Policy for Small and Tiny Enterprises, 2017'?

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2) What are the major departures in the 'measures for financial support' envisaged in the 2017's New Industrial Policy for the MSME sector?

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3) In what respects, the promotion of entrepreneurship proposed to be given a new thrust in the New Industrial Policy for MSMEs, 2017?

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10.7 LET US SUM UP

The MSME sector of India, along with the agricultural sector has consistently been the backbone of the Indian economy. Besides providing employment to nearly 12 million people, production and export from this sector are also substantial. Many low income people consume the products of these industries only. The government has provided consistent support and protection to the small industries sector (or the MSME sector) as a matter of policy since independence. The Industrial Policy of 1991 tried to lift the protection of the small scale sector, but revised it stand later after seeing the distress it caused to many poor persons dependent on this sector for their livelihood. The MSME Act of 2006 has tried to infuse renewed vigour into the sector.

10.8 KEY WORDS

SSI Sector	Consists of both registered and unregistered enterprises spanning over the traditional and modern units. A large part of the unregistered traditional sector, accounting for nearly 92 percent of total employment, belongs to the 'small and tiny' segment of the larger SSI sector. This segment functions mostly on family labour and are hence also called as OAEs (own account enterprises).
MSMEs	A new nomenclature given to the earlier SSI sector in 2006 in which a new distinction of 'medium enterprises' is accorded. The idea behind this reclassification is to provide renewed comprehensive support for meeting all their needs, from credit to technological upgradation and marketing, thereby making them more competitive to graduate from the 'small sector' segment to the 'medium sector' segment.

10.9 SOME USEFUL BOOKS AND REFERENCES

1) Kapila, U (2014-15). Indian Economy Since Independence, Academic Foundation, New Delhi.

2) Gaurav Dutt and Ashwani Mahajan (ed.), Indian Economy (2012). Dutt and Sundharam, S. Chand and Company Ltd, New Delhi.

10.10 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Khadi, handlooms, handicrafts, etc. By being labour intensive.
2) Employment criteria and investment criteria. Enterprises carried out entirely by family labour (i.e. 'nil' hired labour) are designated as OAEs.
3) Tiny, small and medium enterprises. The separate category of 'ancillary units' is specified with a slightly higher ceiling on investment in P & M.
4) For the sake of their employment potential as also their traditional value linked to export or foreign exchange dimension.
5) The four arguments are of: employment, equality, latent resource and decentralisation.
6) Yes: due to its output to employment ratio being favourable to employment.

Check Your Progress 2

1) Threat of competition, lower employment intensity in the units that came up during this period and lack of infrastructural facilities for the SSI units.
2) It remained more or less constant in the 2000s except in terms of output. Such steep increase in output is attributed to the low base effect in the 1990s.
3) Financial, marketing and non-availability of raw materials.
4) Introduction of an intermediate class for 'medium scale enterprises'.
5) Reservation of items, allocation of space in SEZs, protection offered for timely payment, etc..
6) By providing comprehensive service to cater to the diverse needs of the MSME sector.

Check Your Progress 3

1) The 'tiny enterprises' are made eligible for additional support on a continuing basis.
2) Shift from subsidised/cheap credit to ensuring adequate flow of credit with quality of delivery, extending access to the capital market, etc.
3) Promotion of first generation entrepreneurs through EDP, collaborative venture with industry associations and special training program for women.

BLOCK 4
SERVICE SECTOR

BLOCK 4 SERVICE SECTOR

Block 4 of this course is on ‘Service Sector’ in India. It covers two broad areas viz. (i) Features of Service Sector and (ii) Policy Issues for Service Sector. The two areas are covered in Units 11 and 12 respectively.

Unit 11, on ‘**Features of Service Sector**’, begins with an outline of the share of India’s service sector in the GDP. It then presents the growth profile of the sector. The three constituent sub-sectors of the larger service sector [viz. (i) trade and transport, (ii) finance, real estate and business and (iii) public administration, defence and other services] are explained. The unit concludes with an account on the ‘informal services sector’ in India.

Unit 12 is on ‘**Policy Issues for Service Sector**’. The issues of policies for service sector are explained under four heads viz. (i) FDI, (ii) disinvestment, (iii) tariff and taxes and (iv) sector specific issues. Recent measures on domestic regulations, in terms of impact of policies and constraints, is discussed next. The unit concludes with an account on the ‘prospects and opportunities’ for the export of services.

UNIT 11 FEATURES OF SERVICE SECTOR[*]

Structure

11.0 OBJECTIVES

After reading this unit, you will be able to:

- delineate the constituents of the ‘services sector’;
- outline the two basic features of ‘services sector’;
- discuss the trend in the sectoral share of GDP over the period 1950-2014 in India;
- compare the recent (2013-17) growth profile of services sector with that of agricultural and industrial sectors;
- explain the features of major constituent sub-sectors of the broad services sector in India ;
- write a note on ‘informal services sector’; and
- present an international profile of employment-GVA shares of services sector with its implications for policy challenges in India.

11.1 INTRODUCTION

No industry can be set up in an area where roads/banks are not available. A product purchased cannot be used well if its after sale service is not

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[*] Ms. Vishakha Goyal, Asst. Professor, Delhi University

guaranteed. Some Services or the other is thus inevitably required to support the two principal sectors of the economy viz. agriculture and industries. On the basis of total range of economic activities, therefore, the economy is classified into three sectors viz. the primary sector, the secondary sector and the tertiary or the 'services sector'. The 'primary sector' refers to those activities which are based on the products derived from natural resources like agriculture, mining, forestry, fishery and other products which are directly derived from nature. The 'secondary sector' produces finished goods by infusing a value addition to the products of primary sector used as raw material. The secondary sector requires the use of heavy machinery to process/manufacture different goods. The third leading sector of the economy is the 'services sector' which does not produce any tangible goods, but performs crucial services or actions that cannot be seen, felt, tasted or touched as objects or goods. It comprises different industries like warehousing, transportation, information, investment, banking, insurance, etc. The sector is also known as tertiary sector as it is the third tier in the three sector classificatory framework of an economy. Since it supports other sectors, it is important for an economy to develop this sector. The range and responsibility of this sector is much widespread as services touch the lives of every person, every day be it in the field of food services, communications, travel, amusement parks or critical service required for human development viz. education and health services. The process of human capital formation made by the latter two sectors (which together constitute the 'social sector') is going to determine the real output of the other two sectors viz. the primary and the industries sector. Schools, colleges, hospitals, skill development centres all come under this sector. Services are needed both for the corporate as well as the household sector. With this background, let us now proceed to know in more detail about the 'concept and scope' of 'services sector'.

11.2 CONCEPT AND SCOPE

Service industry or 'services sector' is made up of entities that earn their revenue through selling products or offering services. It comprises retail, transportation, distribution, etc. crucially needed for industrial development. It includes services of sectors engaged in the task of converting human beings into 'human capital'. The sector is largely a non-commodity producing sector different from the primary and the secondary sectors. The basic characteristic of services sector is 'non-transferability' which means the services are produced either for a particular person or for a group of people. For instance, banking service is produced either for an individual person or for a particular firm. A bank operates for a number of persons but the services provided for each individual is exclusive to each other. Hence, services rendered for each individual is a customised service which cannot be transferred by the recipient to any other person. The characteristic of non-transferability can be seen in other sectors like health and education. One cannot transfer the benefits of health and education acquired by an individual to others as they

Features of Service Sector

need to be acquired by each individual independently. We can relate the characteristic of non-transferability of the other services sectors like transportation, communication, etc. in a similar manner. Implication of this feature (non-transferability) of services sector is heterogeneity. This means that services are produced differently for different persons/firms or services cannot be produced in a bulk to be distributed evenly for all.

Another feature of services sector is ‘non-storability’. This means these services cannot be stored for future use. Unlike in the manufacturing sector where stocks are maintained to meet unexpected future demand, services cannot be stored to meet future needs. For instance, consultations of a doctor can vary from disease to disease and from individual to individual. The nature of consultancy may depend on the skill or competency of a doctor and on health parameters of an individual. The same medicine can be reactive for same disease in different individuals. This is the reason that skilled manpower is the basic requirement for the development of services sector. However, recent developments in communication technology is a boost to the growth potential of services sector as services can now be provided to people located in distant locations. A doctor can give his consultation by interacting with his patient over video-call or a charted accountant can give his advice to his clients in a similar manner. The services sector can thus extend its services beyond the national boundaries. There is not only a growing market for services but there is an increasing dominance of services in economies worldwide. The tremendous growth and economic contribution of the services sector have drawn increasing attention to the issues and problems of the services sector industries. With globalisation, the services sector has emerged with a diverse approach with the service organisations ranging in their size and operations [from huge international corporations (e.g. airlines, banking, insurance, telecommunications, hotels, freight transportation) to a vast array of locally owned and operated small businesses like restaurants, laundries, taxis, etc.].

11.2.1 Share in GDP

At the time of independence, the share of services sector in the GDP of India was less than 30 percent (Table 11.1). Over the next 30 years, it increased gradually to touch 40 percent by 1980. As a newly independent country, India was predominantly agrarian. Hence, the share of agriculture in GDP was also the highest (more than 50 percent in 1950). Over the years, in its share in India’s GDP has come down by more than 30 percent (16 percent in 2019). The corresponding share of industry has increased from about 15 percent in 1950 to about 30 percent in 2019. Presently, the share of services sector is the highest among all the three sectors of the economy (54.3 percent in 2019). In other words, the primacy of place occupied by agriculture in 1950 is since replaced by the services sector. But this is only about the GDP share but not the employment share (in employment agriculture’s share has come down from 70+ percent at the time of independence to 43 percent in

2019 whereas services sector's has increased from about 15 percent to 32 percent).

Table 11.1: Sectoral Share in GDP (%) – 1950-2019

Sector	**1950**	**1960**	**1970**	**1980**	**1990**	**2000**	**2014**	**2017**	**2019**
Agriculture	55.3	47.6	42.8	37.3	30.9	21.8	20.7	18.2	16.1
Industry	14.8	19.6	21.3	22.3	23.3	24.5	28.3	28.4	29.6
Services	29.8	32.8	35.9	40.3	45.7	53.7	51.1	53.3	54.3

Source: National Income Accounts.

Note: Base for 2014-19 is 2011-12 prices and for previous years it is at 2004-05 prices.

11.2.2 Growth Profile

In terms of inter-sectoral growth (Table 11.2) particularly in the more recent years (2013-19), both agriculture and industry have doubled their growth (agriculture from 1.4 percent in 2012-13 to 2.7 percent in 2018-19 and industries from 3.6 percent to 7.5 percent). The intervening year of 2015-16 was marked by a higher growth rate for both the industries and the services (the former by 9.5 percent and the latter by 9 percent). This shows that the two years of 2016-17 and 2017-18 were unfavourable for the performance of both these sectors in general. Two major factors identified by several studies for this slowdown are the effect of demonetisation and implementation issues of GST. The low per-capita income in Indian agriculture, owing to higher share in employment but declining share in GDP, has compelled people to look for alternative avenues of employment in the non-farm sector in general. With the efforts of government on education and training of the masses, and policies pursued to promote non-farm activities, the workforce has shifted from agriculture to non-agricultural occupations. There is a decline of 17 percent employment in agriculture over 2000-2019 (from 60 percent in 2000 to 43 percent in 2019). This decline is almost equally absorbed by the other two principal sectors i.e. 8.5 percent by industries and 8.2 percent by services (vide Table 3.4, Unit 3, Course BECE 145).

Table 11.2: Growth Rate (%) of Principal Sectors in India

Sector /Year	**2012-13**	**2015-16**	**2018-19 (PE)**
Agriculture	1.4	2.1	2.7
Industries	3.6	9.5	7.5
Services	7.9	9.0	7.6
GVA (%)	**5.4**	**8.0**	**6.6**

Source: Economic Survey 2019-20, Vol. 2, Table 1.5 B, page A 13.

Note: PE = Provisional Estimates.

Factors Contributing to Services Sectors' Performance and Continued Issues Associated with the Sector: Ever since the introduction of new economic reforms in 1991, the services sector has experienced a stimulus for its growth. This is on account of policy impact like increased privatisation, removal of FDI restrictions and streamlining of the approval procedures. These reforms gave new opportunity to the services sector to work in the globalised world. The international exposure became an important factor to contribute for the growth of the services sector in India. Technological progress has also made its contribution in this regard. Thus, availability of skilled manpower, coupled in particular with the developments in communications sector, contributed to India's taking advantage of outsourced services from the developed to the developing countries. In other words, India could offer comparative advantage in terms of wages and skilled manpower. The growth of India's services sector, its rising contribution to GDP and its increasing share in trade and investment are thus the principal reasons why, unlike other countries where economic growth led to a shift from agriculture to industries, the structural shift in India took place straightaway from agriculture to the services sector. This is despite the fact that our educational standards had been producing school leavers, under graduates and higher level professionals at a sub-optimal (called non-employable) level. This recognition, revealed from many surveys and reports, led to focused measures of reform being taken in the education sector in India. As a result, as per the India Skills Report of 2019, the all India level employability of B. Tech. and B. E. graduates has improved to 63 percent in 2018 from its level of 42 percent in 2017. Similar improvements have been there in other professional programmes like MBA. Among other factors, initiatives introduced in providing market driven training programmes have contributed to this shift. An internship linked certification of graduates from these programmes has been identified as being at the core of this structural change.

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) State the two basic characteristics of the 'services sector'. Which of these two characteristics imply heterogeneity in services produced and why?

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2) Due to the very nature of services sector, which particular factor is more crucial for its development? And what changes have come about in this respect recently?

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3) In comparison to 'industries', how would you rate the growth of services sector over a long term time frame?

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4) What factors have contributed to the surging ahead of services sector particularly in the post-reform years of 1990s?

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5) What factors have contributed to higher growth by some constituent sub-sectors of services sector than some other constituent sectors of services in India?

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6) What does the short term more recent growth trend of major sectors in India reveal?

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11.3 CONSTITUENT SUB-SECTORS

The services sector comprise of sub-sectors like: (i) trade, hotels and restaurants; (ii) transport, storage and communication; (iii) financial, real estate and business services; and (iv) public administration, defence, law and order and judiciary; etc. A more popular term 'trade in services' has recently entered literature in the context of WTO. Let us first know more about the important sub-sectors of services sector first.

11.3.1 Trade and Transport Services

Trade refers to sale and delivery of products or service. When such trade is based in different countries it becomes 'international trade in services' which mainly constitutes ICT (Information and Communication Technology) services. ICT services have increased Indian exports many fold providing an increase in India's trade surplus. Service exports have contributed to inclusive economic growth by increasing the number of well-paid jobs and by reallocating labour to high-productivity sectors. They have also increased tax revenues of the government which enables government to spend more on development works. This has also stimulated domestic demand for goods and infrastructure owing to increased per-capita income of workers in such services. An important sub-category of trade is the 'transport sector'. This sector comprises of roadways, ports, highways, rail and aviation. Transport services have domestic as well as international demand. Aviation sector has good potential under the new FDI norms in India for boosting the growth of 'tourism sector'. Hotels and restaurants are another major sub-sector linked to the 'tourism sector'. All these sub-sectors of the larger 'services sector' have one thing in common i.e. they have immense potential for innovation and growth.

11.3.2 Financial, Real Estate and Business Services

The financial sector constitutes the banking sector, stock exchange and insurance sector. Since the year 2001, the banking sector has grown at a compound rate (i.e. average annual compound rate) of 10-12 percent per annum. In particular, the 'mutual funds' segment of this sector has yielded a return of 9 to 12 percent over the period 2016-18. India's life insurance business ranks fifth among the largest global markets with a growth rate of more than 20 percent. The non-life insurance sector (e.g. automobiles) has grown at 15 percent. The insurance sector was opened up for private investment in 2016 and the market has become competitive with the entry of global players. This has contributed to strengthening its risk management capability. With ever growing demand for housing and commercial space, stimulated by rapid urbanisation, the Indian real estate sector has become one of the fastest growing sectors of the emerging markets. It has attracted significant participation of foreign investors. Another major sub-sector is the 'business and professional services' which includes computers, research and development (R&D), accounting and legal services. This sector too has both international and domestic demand. The share of business services in India's GDP has registered a combined growth rate of 13.5 percent in 2011-12. Among business services, R & D occupies the second position in India's GDP with growth being consistently high (around 20 percent). India has competitive advantage in R&D with active involvement of both public and private sectors.

11.3.3 Public Administration, Defence and Other Services

In modern democracies, public services are undertaken by civil servants and are motivated by the demand for services of the growing society. National defence is one such service which requires huge public expenditure. In 2013, India has approved an increase in FDI limits of defence sector for the first time. Since then there is remarkable growth in this subsector. In 2017, the annual real GVA in public administration and defence services sector was 11.3 percent of GDP. This was 6.9 percent in 2016. The sub-sector of 'public administration' is a stagnant sector with its average growth rate on the sector having remained more or less the same since the 1980s. This means the above increase from 6.9 percent to 11.3 percent (in just one year) is entirely due to the defence sector increase. The composition of these three sectors in the overall GVA (i.e. considering their total GVA as 100 percent) is: trade, hotels, transportation and communications (47 percent), financing, insurance, real estate and business services (27 percent) and personal services (26 percent). If we consider the share of these three sub-sectors in the total economy's GVA (i.e. by taking primary + secondary + tertiary as 100 percent), their respective percentage shares in 2017 is: trade, hotels, etc. (7.3 percent), financial, real estate, etc. (6.5 percent) and public administration, defence, etc. (11.2 percent). In other words, in 2017, the three sectors together accounted for 25 percent of GVA to the country. Note that here we are talking of GVA which is 'value of output minus value of input' whereas when we talk of 58 percent share of services sector to GDP we are considering only the 'value of output'.

As said earlier, in the context of WTO, the term 'trade in services' refers to the 'Agreement on Trade in Services'. The Agreement defines the services in terms of four modes of supply. The first mode covers services supplied from one country to another (e.g. business processing outsourcing services). The second mode covers individual consumers or firms making use of some services in another country (e.g. international tourism). The third mode covers a foreign company setting up subsidiaries or branches to provide services in another country (e.g. a bank setting up a branch overseas). The forth mode covers individuals travelling from their country to supply services in another country (e.g. a consultant travelling abroad to provide an IT service).

11.4 INFORMAL SERVICES SECTOR

Formal (or organised) sector of economy is defined as those business entities which are governed by the rules and regulation of the government and pay taxes. Such rules relate to protecting the employees social security needs (e.g. minimum wages, paid holidays, health coverage, old age pension, etc.). There is a large segment outside this formal sector called the informal (or unorganised) sector which operates outside the government's rules and regulation and pay no taxes. Both in organised and the unorganised sector, every employee has different contract. For instance, in a private limited company some employees are the permanent staff while many others are daily wagers. The services of daily wagers can be terminated on any day and come under the informal sector of employment. Similar can be the case of small partnership firms where only few employees have formal terms of employment while most others would be informal employees. While formal employees have job security, medical facilities, social security (pension) provision from the employer, those working as informal employees do not enjoy such benefits.

Many people are compelled to work in this sector due to lack of training/formal education and opportunities. But the sector is important not only because it generates income-earning opportunities for a large number of people but also, in the process, contribute significantly to the GDP of the country. The sector thereby plays an important role in poverty alleviation. The National Commission for Enterprises in the Unorganised Sector (NCEUS) has defined the informal/unorganised sector as all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten workers including self-employed workers. Examples of such informal occupational services sector category include: midwives, domestic workers, fishermen, barbers, vegetable and fruit vendors, cobblers, news paper vendors, etc. Together, they constitute a large proportion of the total workforce employed in the country. Informal sector plays a significant role in both the rural as well as the urban economy. Among the segments providing their services to urban consumers we can identify occupational categories like: tailors, physically handicapped self employed persons, rickshaw pullers, auto drivers, carpenters, electricians, plumbers, tannery workers, etc. The composition of total employment (combined of all three sectors) in the organised vs unorganised sector in India was in the proportion of 13 : 87 in 2004-05. This position had changed to 17 : 83 in 2011-12 . This shows an increase in organised sector employment from 13 percent in 2004-05 to 17 per cent in 2011-12 with a corresponding decline in informal employment from 87 to 83 percent. The proportions indicated are as per the two NSSO rounds for 2005 and 2012. The corresponding change in the distribution of formal and informal workers in the services sector alone (between 2005 and 2012) was from 4.7 percent to 5.8 percent for formal workers and from 18.7 percent to 21.0 percent for informal workers. Thus, there is a marginal increase of formal employment (i.e. an increase of 1.1 percent) as compared to a far larger increase in the informal employment share (i.e. an increase of 2.3 percent). The results of NSSO surveys are often available with a substantial time lag and the proportions indicated are illustrative of the broad trend.

11.4.1 Intermediate Services Sector

Dynamic services sectors, such as engineering and research and development, have seen rapid productivity growth globally in recent years. Most of such services are helping the manufacturing sector and are thus part of final goods. In particular, research and development (R&D) helps contribute to develop new products as well as upgrade the existing ones. In this sense, R&D services contribute to cross-border services in and are intermediate services in nature. For instance, a mobile phone can be considered as trade in goods. It is a tangible good used by final consumers. But without the contribution from service industry, the mobile phone industry has no existence. We all have seen frequent changes in the models and features of mobile hand-sets. For their manufacturing, many components are supplied by tiny units employing less than 10 workers in the informal sector establishments. Once they are finally made, transport and logistics services help the products to reach their final destination. Modern day products are thus bundles of value added goods with contribution from many services sector enterprises and workers. There are some services which are directly consumed by final consumers but many services need not have the nature of a tangible product. They are in the nature of pre and after sale services.

11.4.2 Employment

Agriculture continues to be the predominant occupation for more than 45 percent of the total workers in India. A large section of them belong to the informal sector i.e. agricultural labour or belonging to the small and marginal farmer class. The employment share of the services sector is in the range of 25-30 percent (Table 11.3) in India. If we compare the trend of employment in services sector in India with that in other developed and developing countries, the share of employment in the services sector in India is observed to be the lowest. A noticeable trend in this regard is that there is a convergence in the share of GDP and employment in other countries but it is not so in India. India is thus a total outlier with its share of services sector's share in GDP being nearly two times that of its employment share (it having touched close to 58 percent for some years). This implies a far higher level of labour productivity in the services sector relative to that in the other two sectors i.e. the primary and the secondary sectors. While this by itself in not adverse, the indirect implication for increasing the productivity levels of primary and secondary sector activities gets underscored here. Some of the other implications are as follows.

Table 11.3: Inter-Country Profile (%) of Contribution of Services Sector in Gross Value Added and Employment

Country	GDP (2015)	Employment (2016)
India	53.2	28.6
China	49.7	42.4
Mexico	60.4	61.2
Brazil	72.0	68.9
United Kingdom	79.9	80.0
United states of America	79.3	80.0

Source: ILOSTAT database.

Owing to the services sector's six-plus percent annual growth rate over the last several decades, there is a continuous increase in the middle class segment (estimated to be about 200 million people) in India. This has been increasing the demand for semi-luxurious goods and educational services at primary, secondary and higher secondary levels. The implementation of the Goods and Services Tax (GST) is expected to create a common national market reducing the overall tax burden. This is expected to reduce costs in the long run resulting in reduction of prices of services. This is a favourable trend with multiplier benefits for growth and production of services sector. However, there are disparities in 'access to services' for large proportion of the poor in India who do not have access to basic services like health and education. This needs due policy attention on social sector expenditure and outcomes. The share of services sector in India's total trade is higher than the global average and India is figuring among the top 10 WTO member countries in services exports and imports. This calls for enhancing India's export competitiveness in services sector with appropriate strategies on the policy front.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) State the constituents of trade and transport sector.

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2) What are the constituents of 'financial sector'?

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3) Mention the sub-constituents of 'business and professional services'.

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4) What has been the extent of reduction in the proportion of informal sector workers in the Indian economy?

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5) What is meant by 'intermediate services sector'?

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6) What is a particularly noticeable trend in the employment structure of 'services sector' in India when viewed from an international perspective?

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7) What are the three major implications for policy in light of higher growth trends of 'services sector' in India?

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11.5 LET US SUM UP

The 'services sector' comprise of many sub-sectors of which the three major ones are: (i) trade, communications and transport; (ii) financial, real estate and business services; (iii) public administration and defence. Many of these sub-sectors have shown very good growth potential in recent years. Even as a whole, the services sector in India has maintained a consistent growth rate of 6.2 percent average over the last 7 decades. This has further steepened during the post 1990s and 2000s in which many of the sub-sectors have grown at rates in the range of 10-20 percent. As a result, the share of the services sector in India's GDP has touched 58 percent (for some years) from its share of 30 percent in 1950. Such huge growth potential needs harnessed by appropriate government policies and public expenditure. This requires expansion of infrastructure and social sector spending.

11.6 KEY WORDS

Gross Value addition	:	It is the measure of the value of final goods and services produced in an industry or sector of an economy.
Gross domestic Product (GDP)	:	It is a monetary measure of the market value of all the goods and services produced in a country during a financial year.
Foreign Direct Investment (FDI)	:	Refers to investment made by a firm or individual in one country in businesses located in another country generating physical asset.

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11.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Non-transferability and non-storability. Non-transferability implies heterogeneity because it means each individual has to be serviced differently and not in a combined manner for a group.
2) Skilled manpower supply of a continuing nature is the most important factor. But due to technological advancement particularly in the ICT sector, national boundaries are proving no more barriers to services sector's expansion and growth.
3) Growth rate is calculated to the base. A low base helps achieve higher growth initially. The 0.4 percent increase is on a continually ever increasing size of GDP. The long term growth profile of industries and services, over the period 1951 to 2015, is close to each other (6.1 percent for industries and 6.2 percent for services). Despite this seemingly close growth rate, this is also indicative of a faster growth over higher bases by the services sector as opposed to relatively slower growth of industries over lower base values.
4) Privatisation, removal of FDI restrictions and streamlining of the approval procedures.
5) Technological progress and significant government expenditure.
6) That the 'services sector' has kept up its faster pace while there is improvement in the agricultural and the industries sector too.

Check Your Progress 2

1) ICT, road, rail, ports, highways, aviation, hotels and restaurants and tourism.
2) Banking, stock exchange and insurance.
3) Computers, research and development (R&D), accounting and legal services.
4) From about 90+ percent in the 1990s to about 47 percent in 2005.
5) They refer to services provided by tiny enterprises and are in the nature of pre and after sale services.
6) That there is no convergence between its share in employment and contribution to GDP. There is a huge divergence with employment being in the range of 25-30 percent and contribution to GDP from services being 58 percent.
7) Boost the productivity of primary and secondary sectors in order to reduce the inter-sector productivity levels, expand social sector spending so as to meet the demand for semi-luxury and educational services and adopt policies for reducing disparities in 'access to services' by large sections of poor and to enhance India's export competitiveness.

UNIT 12 POLICY ISSUES FOR SERVICE SECTOR[*]

Structure

12.0 OBJECTIVES

After reading this unit, you will be able to:

- indicate the significance of services sector for the Indian economy;
- state the different constituents (sub-sectors) of services sector;
- discuss some of the major areas in which policy initiatives are needed to be focused for the development of services sector in India;
- delineate the domestic regulations in place for the protection of the services sector in India;
- discuss the impact of recent domestic policies and continued constraints faced by services sector in India;
- present a profile of the important services exported by India; and
- outline the prospects of services sector expansion in India.

12.1 INTRODUCTION

The contribution of services sector to India's Gross Domestic Product (GDP) is significant. The sector has attracted significant foreign investment,

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contributed consistently more than 50 percent to the GDP of the country [since 1999-00 (at 2004-05 prices)] and significantly contributed to exports as well as provided large-scale employment. In 2016-17, the gross value added (GVA) from the services sector was 53.7 percent which was more than three times that of India's manufacturing sector (16.6 percent). The services sector covers a wide variety of activities (sub-sectors) like: (i) trade, hotels and restaurants, (ii) transport, storage and communication, (iii) financing, insurance, real estate and business services, (iv) community, social and personal services and (v) services associated with construction. In fact, services like: (i) IT/ITeS [information technology (IT) and IT enables services], (ii) logistics (including courier services), (iii) retail (including e-commerce and transport) services, (iv) financial services, (v) utilities (water, electricity and gas), (vi) telecommunications, engineering, architectural, accounting and legal services are critical components for the growth of the manufacturing sector. There is, however, a large unorganised sector with low tax compliance in the services sector in India. In such a context, policy formulation is a dynamic phenomenon which needs to evolve with the changing times. The present unit profiles the policies initiated in the recent past (two years prior to 2018) to reveal how the above constituents of the services sector have performed and what policy reorientation/thrust is required to enhance the growth of the services sector in India.

12.2 POLICY ISSUES

Policy issues for the promotion of the services sector include many areas like (i) foreign direct investment (FDI), (ii) disinvestment, (iii) tariff and taxes, and (iv) other sector-specific policy issues.

12.2.1 Foreign Direct Investment (FDI)

FDI takes place when an investor establishes foreign business operation or acquires foreign business assets (including establishment of ownership or controlling interest) in a foreign company. One of the recent (2016) important policy initiatives taken in the case of FDI in services sector in India relates to the opening of retail trade for single brand products subject to 51 percent share holding. However, along with allowing FDI in retail in a phased manner beginning first with metropolitan cities, the existing domestic small retail outlets needs to be incentivised to modernise so that they can compete effectively with the FDI supported branded outlets. Further, in the insurance sector, the government has not been able to raise the FDI share from the 26 percent level. Given the practical difficulty in raising FDI cap in the insurance sector as a whole, government is planning to open up at least some segments of the insurance sector like health insurance sector to help the development of specialised hospital services.

12.2.2 Disinvestment

Disinvestment is an action of an organisation or government towards selling its assets or subsidiary. In India, there is a 10 year disinvestment clause in the insurance sector. In the banking sector, foreign investment of 74 percent is allowed with licensing requirements. In case of telecommunications, 26 percent disinvestment is allowed while for air transport services, 49 percent FDI is allowed. Some other important corporations which are listed for disinvestment are: Shipping Corporation of India, Bharat Sanchar Nigam, Cochin Shipyard, Goa Shipyard, Indian Railway Catering and Tourism Corporation, National Film Development Corporation, etc. These disinvestments can not only yield sizeable revenue to the government but also make these corporations more efficient contributing to the growth process.

12.2.3 Tariff and Taxes

Tariff means tax on import by the Government. Many important tariff and tax related measures need to be addressed in order to make the Indian services more competitive. For instance, in shipping services, while trade has increased, nearly 50 percent of fleet has run out of their commercial life. In case of aviation industry, an import duty is levied for aircrafts parts imported and when the company sells those parts to an aircraft operator, a sales tax of around 10-13 percent is levied. Measures to rationalise such tariffs and taxes levied and help modernise the aviation and shipping industry to improve efficiency are required.

12.2.4 Sector Specific Issues

Specific sectors of the broader services sector requires specific policy initiatives. For instance, keeping in view the importance of telecom industry for overall development, government has reduced and simplified the tax structure for this industry. In particular, government has auctioned 3G technology to induce competition and make available high speed internet connectivity at affordable prices in the country. For the healthcare service providers, apart from national standardised accreditation, there is a need for international accreditation. Further, external assessment of healthcare services is being increasingly adopted to regulate, improve and promote healthcare services all over the world. International accreditation is a very important step to make the hospitals eligible for the coverage of their services with foreign insurers. In view of this, an increasing number of hospitals in India have turned to international accreditation agencies to standardise their protocols. Some of the recommendations of the Committee on financial sector reforms (Raghuram Rajan Committee) regarding Indian economy includes: recognising warehouse receipts as negotiable instruments for farmers to get credit, opening up investment in the government bond markets to foreign investors, liberalising the 'banking correspondent regulation' so that local agents can extend financial services, etc.

12.3 DOMESTIC REGULATIONS: IMPACT OF POLICIES AND CONSTRAINTS

Domestic regulations include: (i) licensing requirements and procedures, (ii) qualification requirements and (iii) technical standards. Since domestic regulations perform the role of tariffs in regulating services, we give here an account of the major domestic regulations in place for the services sector in India.

Transport Services: Restrictions are imposed on inter-state movement of goods and coordination issues between government departments. The latter is in the case of multimodal transportation which need changes in the Multimodal Transportation of Goods Act, 1993. There are also restrictions on free movement of cargo between Inland Container Depots (ICDs), Container Freight Stations (CFSs) and Ports.

Construction, Engineering and Related Services: There are restrictions on: (i) minimum capitalisation norms and (ii) repatriation and minimum area norms. There is also a general umbrella (protection) clause imposed by state government, municipal or local body. This protects investments or commitments that the host country entered into with a foreign investment.

Restrictions Under the Urban Land Ceiling and Regulation Act: The Act restricts construction services firms in India to operate on small scale not allowing to exploit economies of scale.

Healthcare Services: There are restrictions on foreigners providing healthcare services. While there is no cap on FDI in health services, foreign individuals are prohibited from providing services for profit and their operation is subject to registration by Medical/Dental/Nursing councils of India.

Accountancy Services: Besides FDI not being allowed in this sector, foreign service providers are not allowed to undertake statutory audit of companies. There is also a ban on the use of logos of accounting firms to facilitate tie-ups and penetrate foreign markets given the potential for exporting these in outsourcing mode.

Legal Services: FDI is not permitted in legal services and international law firms are not authorised to advertise and open offices in India. Foreign service providers can neither be appointed as partners nor sign legal documents and represent clients.

Education Services: Since education comes under the concurrent list in India, multiple controls and regulations are imposed by central and state governments and statutory bodies. There is a need for regulations with respect to establishment of new medical colleges and to review patient load factors to be in tune with the present day equipment-intensive-patient-care and modern practices and procedures of medical education/services.

12.3.1 Recent Measures and their Impact on Services Sector

Among the many initiatives taken by the government to promote the services sector in India, some of the recent measures include: (i) increase in SEIS (Service Export from India Scheme) incentives for notified services in business, legal, accounting, architectural, engineering, educational, hospital, hotels and restaurants; (ii) increase in the validity period of the 'duty credit scrips' from 18 months to 24 months to enhance their utility in the GST framework; (iii) reducing the GST rate for transfer/sale of scrips to zero from the earlier rate of 12 percent; and (iv) creating a new 'logistics division' in the department of commerce to develop and coordinate implementation of an action plan for the integrated development of the logistics sector.

Some other initiatives taken include: (i) digital India programme in the IT sector; (ii) 'adopt a heritage scheme' to promote world heritage sites in India, (iii) establishment of 'national medical and wellness tourism board' (NMWTB) to promote medical Tourism; (iv) easing procedural compliance for ship registration and measures to promote cruise shipping and coastal shipping; (v) launching of Pradhan Mantri Awas Yojana, smart cities mission and RERA to promote and regulate housing and real estate sector; (vi) extending lines of credit and buyer's credit under the national export insurance account; etc. Despite these well meaning initiatives, some of the other more recent policy measures, and some other factors, which adversely impacts the services sector's growth in India are the following.

Impact of Demonetisation: There was not much impact of demonetisation on tourism with the 'foreign exchange earnings' (FEE) increasing after demonetisation. Bank credit by commercial banks also increased after demonetisation but residential sales across top-eight cities in India (in 2016) and new residential unit launches fell. This was primarily due to the prolonged slump and execution delays in project completion which resulted in inventory pile-up across all cities. Demonetisation might have impacted the new launches and sales in the short term with several states recording drop in property registrations post-demonetisation. However, there was not much impact on property prices. There were also many positive impacts on services like greater digitisation, increase in payments to local bodies and discoms (as demonetised notes were legal tender for such payments for some time), net flows into mutual funds increasing by nearly 19 times due to reduction in interest rates on bank deposits after demonetisation and premia collected by life insurance corporation of India increased by 142 percent (in November 2016) and by private sector life insurance companies by nearly 50 percent due to the window provided for depositing old notes to make these payments for a short while.

Goods and Services Tax (GST) and Services: In the case of services, the GST rates are NIL for education and health services and 5 percent for transport of goods by rail and vessel. Only 4 service items are in the highest slab of 28 percent viz. (i) entertainment events or access to amusement facilities, (ii) cinematograph films, (iii) theme parks and joy rides and (iv) hotels having room tariff above Rs. 7500 per day per room. Subsequent amendments have offered relief to specific services which include reduction in tax rates on services related to job work (which will benefit many sectors like gems and jewellery) and exempting service enterprises with annual turnover of less than Rs. 2 million from the need to register even in cases where they are making inter-state supplies.

Services Trade Restrictiveness: OECD's 'services trade restrictiveness index' (STRI) helps to identify policy measures restricting trade. Among the 44 countries, India has a STRI score above average in all sectors and the highest in 3 services out of a total of 22 services. Accounting services, legal services and rail freight transport are the three sectors with the highest scores relative to the average. Three sectors with the lowest score relative to the average are: sound recording, engineering and broadcasting. STRI does not include 'tourism and real estate services'. STRI, however, creates concern since in the case of computer services, India's index is placed higher than UK and USA. There is thus a need for improvement in methodology, data collection and transparency in the STRI.

Market Access Barriers: There are many market access barriers in India's trading partner countries particularly the US. These include visa issues and restrictive regime in the case of shipping. For instance, in the shipping sector a minimum of 50 percent shipments needs to be made on US registered ships. Such market access restrictions hinder the performance of India's services sector and growth.

Free Trade Agreements (FTAs): India's FTAs have benefitted its trading partners more than India. The GSP (generalised system of preferences) benefits have been withdrawn for India (e.g. for medicine and diary products) but not for some of its competitors in important sectors. There is a need for more rational FTAs for promoting the services sector in India.

Employment in Services: India's services sector has a high share in income but relatively low share in employment, while in China, the shares of services income (46.4 percent in 2011) is low when compared to India while the share of services employment (35.7 percent in 2013) is high relative to India. While services like IT are skill oriented, services like Tourism are employment generators. There is a need for further efforts to enhance both unskilled/semiskilled employment and skilled and quality employment in services sector. The skill India initiative needs to be further dovetailed for services sector employment.

To conclude, therefore, a 'services from India' initiative on the lines of 'make in India' is needed to strengthen India's services sector domestically and also for exports. There is also a need to make the 'service export promotion council' (SEPC) more active with the networking of Indian missions abroad with the ITPO (India Trade Promotion Organisation).

Check Your Progress 1 [answer within the space given in about 50-100 words]

1) What is an important policy initiative of recent times to influence 'services sector' in India? What is a simultaneous need to be pursued as policy in this regard?

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2) How is disinvestment helpful for the growth of services sector in India?

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3) What role does domestic regulations play? In what forms do they exist in India?

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4) State two sectors in which FDI is not allowed and one sector in which FDI is allowed without restriction or cap (as of now) in India's services sector.

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5) What was the effect of demonetisation on the services sector in India? Were there any positive fallouts due to this measure?

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6) What is STRI and how is it useful? What is its drawback and what is needed to overcome this?

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12.4 EXPORT OF SERVICES

The services sector is an important contributor to Indian exports. India's share in global export of services was 3.2 percent (in 2014-15); nearly double that of its merchandise exports in the global merchandise exports (1.7 percent). This share, however, slid down to 1.7 percent in 2017. Despite these fluctuations in its global share, India is placed in eighth place amongst the top ten exporters of services in the world. The government provides fiscal incentives through 'services exports from India scheme' (SEIS). There are many services exported by India. Some of the important ones are outlined in this section.

Healthcare Services: Healthcare Services include hospital services and other health services viz. shipment of samples, diagnosis, clinical consultation via traditional mail channels, electronic delivery of health services (e.g. telemedicine, tele-surgery, tele-diagnostic services, medical back office services, medical transcription services and online medical education services), establishment of super specialty hospitals and clinics, diagnostic and treatment centre in collaboration with domestic and foreign health service providers, health insurance services and hospital management services, services of doctors, surgeons, nurses and mid-wives in foreign countries, etc. Service export promotion council's (SEPC's) mandate to promote the sector comprehensively includes services by nurses, physiotherapist and paramedical personnel. Presence of world class hospital and skilled medical professionals has strengthened India's position in the world medical service market. India's medical service exports earned 3.9 billion dollars in 2014 through medical tourism. In 2015, 320 million medical tourists came in India.

Legal Services: Broad definition of legal services include advisory and representation services as well as the activities relating to the administration of justice (judges, court clerks, public prosecutors, state advocates, etc.). According to the WTO's 'services sectoral classification list' (SSCL), legal services are included under ‘professional services’. General Agreement of Trade in Services (GATS) mainly covers three modes of delivery of services in cross-border trade viz. (i) cross border supply of legal services using technology (e.g. an Indian law firm e-mails a memo to a client operating in USA), (ii) purchase of legal services in another country (e.g. an Indian legal firm represents an American client in an Indian court) and (iii) expansion of a legal firm or entry of law professionals into another country (e.g. an Indian law firm establishes an office in USA).

Lawyers supplying legal services abroad usually act as foreign legal consultants (FLC). FLCs may provide advice in international law, the law of their home country or in the law of any third country for which they possess the required qualifications. As a consequence of the growth in international trade and the emergence of new fields of practice, particularly in the area of business law, the legal services sector has experienced a steady and continuous growth in the past decades. Issues such as corporate restructuring, privatisation, cross-border mergers and acquisitions, intellectual property rights, new financial instruments, and competition law have recently generated an increasing demand for more sophisticated legal services. India’s participation rate is very high in this area.

Accounting and Auditing Services: Accounting is defined as preparation and analysis of financial information (reported to internal and external users) via financial statements. Auditing is defined as the evaluation of the reliability and credibility of financial information and ‘the systems and processes responsible for recording and summarising such information’.

Hotel and Tourism Services: Tourism and travel-related services include services provided by hotels and restaurants (including catering), travel agencies and tour operator services, tourist guide services and other related services. One of the crucial aspects of international tourism is the cross-border movement of consumers permitting even unskilled workers in remote areas to become service exporters (e.g. selling craft items, performing in cultural shows or working in a tourism lodge).

Environmental Services: Environmental services include sewage services, refuse disposal, sanitation and similar services, reducing vehicle emissions, noise abatement services, nature and landscape protection services, etc. Indian environmental service providers have emerged most significantly in two areas: first, environmental services in turnkey projects (e.g. integrated engineering services in energy equipment) and second, environmental support services like consulting, environmental impact assessment, auditing and training (including ISO 14001). India is exporting integrated environmental equipment and service to the middle east and African markets. India is also exporting environmental consultation service and training to OECD countries.

Audiovisual Services: Audiovisual services include motion picture and video tape production and distribution services, motion picture projection services, radio and television production/transmission services and sound recording. Some examples are cross border supply of entertainment services, expansion of local entertainment firm in another country, etc. India is the largest film producing country in the world, producing on an average 800 feature films and 900 short films in 52 different languages and dialects. The music industry is third largest in Asia and ranks nineteenth in the world. India is the third largest producer of original entertainment software. Our radio and terrestrial broadcasting network is one of the largest in the world.

Marine Transport Services: The three main areas covered in this sector include: access to and use of port facilities, auxiliary services and ocean transport.

To conclude, therefore, there is immense potential with significant export of services already taking places from all of the above sectors from India to other countries. Policies restricting mobility needs to be removed in order that export of services is enhanced.

12.4.1 Prospects and Opportunities

India's services sector has transformed the country, from an agrarian economy in the 1980s, to a services-driven economy known for consistent delivery of high-quality services the world over. In fact, service exports have been a dynamic element of India’s foreign trade ever since the Indian economy opened its doors to the world in 1991. The fact that a large proportion of India's population are fairly conversant with the English language translates to having an edge in key service areas like outsourcing, banking and finance, hospitality, consultancy, etc. Further, the information technology boom combined with its inroads all over the world has had its ripple effect on trade in services.

India was not a signatory of GATS in its early years. It adopted trade in services only in its post-liberalisation phase. Service trade facilitation reform is a key factor affecting services export from India. Post the global crisis of 2008, due to matters related to visas and professional qualifications of service providers, India is facing problems in exporting services to the developed world. Well crafted FTAs in services will help relax such barriers. They could also push for easier visa regulation to aid mobility of professionals across borders. Following four major sectors can be identified to particularly benefit in this regard.

1) **Tourism:** Tourism is a major engine of economic growth, an important source of foreign exchange earnings and a generator of employment of diverse kinds in many countries. India offers a diverse portfolio of niche tourism products like cruises, adventure sports, medical, eco-tourism,

movies, rural and religious tourism, etc. India's tourism and travel sector is ranked 11th among 184 countries on the basis of its GDP contribution.

2) **Education service:** Another sector that holds tremendous potential is education services. Exports from this sector include offering academic courses in humanities, engineering and off-shore services in teaching. The rise in number of knowledge-centric organisations across the globe has resulted in an imminent need of better education for all. India is well-positioned to capitalise on this opportunity. We can take a leaf out of the US play book here. Students from Asia form the largest population of foreign students on campuses in most of US universities. This is despite the obnoxiously high tuition fees charged in these countries. Hence, India has the opportunity to offer itself as a high quality and affordable education hub under various modes of supply of services.

3) **IT Services:** India's technology and business services industry is one of the most dynamic in the world. From offering basic IT services in the 1990s, the industry has moved ahead to offer enterprise resource planning and productivity software in the early 2000s and to export further complicated business solutions in recent years. IT services has thus become a crucial component of the India's services exports.

4) **Transport Services:** Export of transport services constitute about 9 percent of India's total service exports. About 95 percent of India's trade by volume and 68 percent in terms of value are transported by sea. The existing Indian fleet is however ageing. There is an urgent need to increase India's shipping fleet.

Check Your Progress 2 [answer within the space given in about 50-100 words]

1) Where does India stand in 'export of services' in world ranking? What initiative has India taken to improve its position in this respect?

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2) State the important sectors from which 'export of services' are made from India.

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3) State the four modes of legal services covered/included under GATS for cross border service delivery.

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4) State the four potential sectors which offer opportunity to enhance export of services from India.

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12.5 LET US SUM UP

The services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, etc. To promote the services sector, policy focus should centre around: increasing the FDI share, providing tax relief, tackling discriminatory market access, quality improvement and standardisation of services and domestic regulation and tariff mechanisms. India's share in global services exports stood at 3.2 per cent in 2014-15. Though this is double that of its merchandise exports (in the global merchandise exports), it is still low. Thus, although India is placed in the eighth place among the top ten exporters of service in the world, designing suitable policies to provide the required incentives to promote the growth of services sector in general, and the promotion of export of services in particular, remains the key challenge for the Indian government. The government has taken several initiatives to boost services exports from India. Some recent measures include the increase in SEIS (Service Export from India Scheme) incentives for notified services like business, legal, accounting, architectural, engineering, educational, hospital, hotels and restaurants, etc. Other steps taken on the policy front include: increasing the validity period of the duty credit scrips from 18 months to 24 months to enhance their utility in the GST framework, reducing the GST rate for transfer/sale of scrips to zero from the earlier rate of 12 percent, etc.

12.6 KEY WORDS

Goods and Service Taxes (GST)	:	Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. GST is paid by consumers but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government.
Make in India	:	This is a type of Swadeshi movement covering 25 sectors of the economy. It was launched in 2014 to encourage companies to manufacture their products in India and also increase their investment.
Free Trade Agreement (FTA)	:	FTAs are arrangements between two or more countries (or trading blocs) to reduce or eliminate customs tariff and non tariff barriers. FTAs, normally cover trade in goods (such as agricultural or industrial products) or trade in services (such as banking, construction, trading etc.). FTAs also cover other areas like intellectual property rights (IPRs), investment, government procurement and competition policy, etc.
General Agreement on Trade and Services (GATS)	:	It is a world trade agreement. It is the first multilateral agreement providing for legally enforceable rules. It covers all international trade services and investment in the services sector. Attached to its broad framework, there are annexes dealing with rules for specific sectors (e.g. movement of natural persons, air transport, financial services, telecommunications, etc.). The agreement also provides for exception to the principles of national treatment and most-favoured nation treatment.

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12.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) The opening up of retail trade sector for single brand products to FDI is the recent initiative. However, since this would affect many local retailers, it is important to facilitate them to modernise.
2) Sectors like transportation, communications, entertainment are all important constituents of the services sector. There are major public sector corporations in these sub-sectors (e.g. SCI, BSNL, IRCTC, NFDC) which would benefit from disinvestment and FDI.
3) Domestic regulations perform the role of tariffs in regulating the services of the sectors. They exist by way of: (i) licensing and qualification requirements; and (ii) technical standards.
4) FDI as of now is not allowed in legal and accounting services. It is allowed in health sector without cap or ceiling.
5) It did not affect tourism sector, rather forex earnings increased. However, the real estate sector came under stress with sales declining and new residential launches not coming up. There was greater digitisation and payments to insurance premiums and discoms increased due to the window period provided for using old currency.
6) STRI is useful as an index of 'services trade restrictiveness'. It does not include tourism and real estate services and ranks India above US and UK in computer services making its methodology and accuracy doubtful. There is a need for improvement in methodology, data collection and transparency in the STRI.

Check Your Progress 2

1) In respect of 'export of services', in 2015-16, India had occupied 8th place in global ranking. The government provides fiscal incentives through 'services exports from India scheme' (SEIS).
2) Healthcare, legal, accounting and auditing, hotel and tourism, etc.
3) Supply of legal services through mails, sale/purchase of legal services for foreign clients in India, setting up of legal firms in foreign countries and mobility of legal professionals across borders.
4) Tourism, education, information and communication technology (ICT) and transport.

GLOSSARY

Affirmative Action	:	Are policies of the government aimed at helping the marginalised by special schemes to bring them to the mainstream. MGNREGA is an example of this.
Agrarian Relations	:	Relates to relationship between farmers and landlords on the terms on which land would be used for agricultural activities and how the wages or sharecropping practices would be paid/shared.
Autonomous Consumption	:	It is a part of private final consumption expenditure which does not depend on income level of consumer. In other words, it represents that level of consumption which will be consumed by consumer even if their income is zero.
Bills of Exchange	:	Are negotiable financial instruments like a bond or a promissory note. It is an unconditional written order, addressed and signed by one party assuring another party to whom it is addressed, to pay on demand immediately or at a fixed or at a determinable future time, a certain sum of money either to the specified person or to the bearer.
Capital Expenditure	:	It is expenditure by government to buy/create productive assets sustainable over long period of time.
Capital Output Ratio	:	Refers to the amount of capital required to produce one unit of output.
Competition Commission of India	:	A post-liberalisation institutional arrangement to foster healthy competitive environment for the industries by establishing a level playing field with transparent policies and practices and especially to curb anti-competitive practices.
Crop Insurance	:	An important policy instrument for farmers' welfare, particularly the small farmers, against market failure, technology failure and weather failure.
Currency Appreciation & Currency Depreciation	:	Currency appreciation and currency depreciation are foreign exchange market phenomena under the floating exchange rate system. When the value of one currency in terms of the other currency increases in the foreign exchange market it is called currency appreciation. When the value of one currency in terms of the other currency decreases in the foreign exchange market it is called currency depreciation.
Disinvestment	:	It is a process under which governments sell some part of their shareholding to private investors for the purpose of either raising revenue or minimising fiscal deficit.

Economic Recession	**:**	It is a stage of an economy in which economic activities slow down resulting in decline in growth rate and higher level of unemployment.
Exchange Rate	**:**	Exchange rate is the price of one currency expressed in terms of other currency. It is a relative price of currencies.
Fiscal Deficit	**:**	(Revenue expenditure + Capital expenditure) – (Revenue receipts + Recovery of loan + other capital receipts) i.e. expenditure minus revenue from capital receipts other than loans taken. In simpler terms, it is: Total Expenditure – Total Receipts (excluding borrowings).
Floating Exchange Rate	**:**	It is a system which allows the exchange rate to be determined completely by the forces of demand and supply in the market with central banks not intervening directly.
Foreign Direct Investment (FDI)	**:**	Refers to investment made by a firm or individual in one country in businesses located in another country generating physical asset.
Free Trade Agreement (FTA)	**:**	FTAs are arrangements between two or more countries (or trading blocs) to reduce or eliminate customs tariff and non tariff barriers. FTAs, normally cover trade in goods (such as agricultural or industrial products) or trade in services (such as banking, construction, trading etc.). FTAs also cover other areas like intellectual property rights (IPRs), investment, government procurement and competition policy, etc.
General Agreement on Trade and Services (GATS)	**:**	It is a world trade agreement. It is the first multilateral agreement providing for legally enforceable rules. It covers all international trade services and investment in the services sector. Attached to its broad framework, there are annexes dealing with rules for specific sectors (e.g. movement of natural persons, air transport, financial services, telecommunications, etc.). The agreement also provides for exception to the principles of national treatment and most-favoured nation treatment.
Goods and Service Taxes (GST)	**:**	Goods and Services Tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. GST is paid by consumers but it is remitted to the government by the businesses selling the goods and services. In effect, GST provides revenue for the government.

Government Bond	:	A bond is a financial instrument with a face value and a specified rate of return on it. These are issued only by the central government to borrow money from the financial market. Government bonds are also called sovereign bonds. They are always denominated in domestic currency like 'rupee bond'. The government does not ordinarily default on the bond but it can repudiate to pay back. When a government is likely to default on bond the situation is called as 'sovereign debt crisis'.
Government Securities	:	These are government debt instruments like bond and treasury bills. These are also called 'guilt edged securities' because they are risk free. They are issued by the RBI on behalf of the government to finance fiscal deficit. They are money market instruments to raise loans for the central government.
Green Revolution	:	Refers to the huge jump in production of food grains (wheat) because of adoption of scientific cultivation and use of high yielding variety of seeds, fertilisers, pesticides, etc. during the mid-1960s in India.
Gross Domestic Product (GDP)	:	Refers to the monetary value of all goods and services produced in domestic territory of a country during one financial year. It is a monetary measure of the market value of all the goods and services produced in a country during a financial year.
Gross Fiscal Deficit (GFD)	:	This is the amount excess of total government's current and capital expenditure including loans (net of recovery over revenue) and external grants and non-debt receipts.
Gross Primary Fiscal deficit	:	This is: GFD – interest payment by government.
Gross Value Addition	:	It is the measure of the value of final goods and services produced in an industry or sector of an economy.
ICOR	:	ICOR is defined as the ratio between investment in time 't' and the growth in output over a period i.e. between time 't' and time 't–1'.
Industrial Policy Resolution	:	These are policy documents issued from time to time to streamline the growth of the Indian industries in a desired direction. The policies have aimed at developing a strong public sector base for capital goods production and encouraging the private sector to gain excellence in the consumer goods segment in the private sector.
Inflation	:	It is a sustained rise in the general price level in an economy over a period of time. Inflation debases the

		value of money i.e. it reduces the purchasing power of money. It means that same amount of money can now buy a lesser quantity of goods and services in the market than at an earlier point of time.
ISI	:	ISI is a trade and economic policy based on the premise that a developing country should attempt to substitute products it imports with domestically produced products.
IS-LM analysis	:	Developed by Hicks and Hansen, it is the synthesis of real sector and monetary sector in an economy. IS or investment-saving schedule is the locus of the different combinations of real interest rate and GDP at which goods market is in equilibrium. On the other hand, LM (liquidity preference and money supply) is the locus of various combinations of GDP and real interest rate at which money market is in equilibrium. So, IS-LM model combines goods market with money market simultaneously showing general equilibrium in the goods market and money market.
Make in India	:	This is a type of Swadeshi movement covering 25 sectors of the economy. It was launched in 2014 to encourage companies to manufacture their products in India and also increase their investment.
Managed Floating Exchange Rate	:	It is a combination of fixed and floating exchange rate systems. Under this, central banks allow the currency exchange rate to fluctuate within a predetermined band. Central banks frequently intervenes in the foreign exchange markets to stabilise exchange rate.
Migration of Labour	:	Movement of labour from one place to another for livelihood. If current place of residence is different from the place of birth, then it is called migration (Census).
MSMEs	:	A new nomenclature given to the earlier SSI sector in 2006 in which a new distinction of 'medium enterprises' is accorded. The idea behind this reclassification is to provide renewed comprehensive support for meeting all their needs, from credit to technological upgradation and marketing, thereby making them more competitive to graduate from the 'small sector' segment to the 'medium sector' segment.
Net Fiscal Deficit	:	Is the gross fiscal deficit minus net lending by the central government.
Organised Sector		Refers to the sector in which employees of units/establishments are covered by laws of social security, conditions of work, payment norms, etc. Its opposite counterpart is the large unorganised sector where no such legal provision applies in the workers interest.

Price Stability	:	Refers to the absence of sustained fluctuations in the general price level in an economy. In other words, it is the absence of boom and recession.
Price Support	:	Refers to the policy instrument of MSP fixed by the government to ensure reasonable income to farmers.
Primary Deficit	:	It is the amount of fiscal deficit after deducting interest payment on government borrowings.
Productivity	:	Ratio of a measure of output to one or more inputs used in production. If only one input is used, the measure is called Partial Factor Productivity. If more than one inputs are considered then the measure is called as TFP.
Promissory Notes	:	A promissory note is a financial debt instrument in which one party promises in writing to pay the amount due to the other party at a predetermined future date or on demand under specified terms and conditions.
Real Sector and Monetary Sector	:	Real sector is that part of an economy where we study variables measured in physical quantities (e.g. agricultural/industrial production, GDP, capital stock, etc.). Monetary sector of an economy deals with variables expressed in terms of money (e.g. price level, exchange rate, interest rate, etc.).
Regionalism and Multilateralism	:	Regionalism is the process by which the actions of governments to facilitate trade on a regional basis is promoted. Multilateralism are agreements between a group of countries for deepening global trade. It is founded on the core principle of non-discrimination.
Revenue Deficit	:	This is equal to 'Total Revenue Expenditure – Total Revenue Receipts'.
Revenue Expenditure	:	Is the expenditure incurred for revenue transactions or for operational purposes like salary and wage, rent, etc.
SSI Sector	:	Consists of both registered and unregistered enterprises spanning over the traditional and modern units. A large part of the unregistered traditional sector, accounting for nearly 92 percent of total employment, belongs to the 'small and tiny' segment of the larger SSI sector. This segment functions mostly on family labour and are hence also called as OAEs (own account enterprises).
Technical efficiency and Technical Change	:	Technical efficiency and technical change are the two sources of TFP. Technical efficiency refers to the ability of a production unit to produce maximum possible output from a given combination of inputs and technology. Technical change refers to shift in the

		production frontier over a period of time due to application of new technology. Thus, TFP increases either due to improvement in technical efficiency or due to shift in production frontier (technical change) or due to improvement in both.
Tenancy Reform	**:**	Refers to a reform measure to promote share cropping and contract farming. Under this, a secured tenancy is ensured to the lessee and income to absentee owner is ensured by the government which acts as an intermediary between the two parties.
Unorganised ID Act, 1947	**:**	An Act to safeguard the interest of workers covered by the FA 1948 which defines a manufacturing unit as a ‘factory’ depending on the number of workers employed. In particular, the Act provides safeguard against untimely retrenchment from employment by the employer.
Unorganised FDI and FII	**:**	FDI is a long term international capital movement directly made in development projects in other countries. It refers to movement of investible funds or finance. If the lender has operating control over the asset’s use, then investment is direct, otherwise it is portfolio or the FII.
WC Act, 1923 and TU Act, 1926	**:**	WC Act is a legislation of ‘social security’ for the organised sector workers. TU Act is a legislation for providing a leverage in bargaining with the employers by allowing registration of workers’ unions i.e. it is an Act meant to maintain ‘employee relations’ in situations of perceived exploitation of workers by the management. The two Acts are notable for being among the oldest of the legal legislations – the others having been enacted after the 1930s.

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STATISTICAL APPENDIX

Table 11.1: Sectoral Share in GDP (2014-2021) in India
[at Constant 2011-12 Prices]

Sector/Year	2014	2017	2019 (1st RE)	2020 (PE)	2021 (AE)
Agriculture	20.7	18.3	17.3	17.3	18.8
Industries	28.3	28.4	28.4	27.5	26.9
Services	51.1	53.3	54.3	55.2	54.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Table 1.3 B, A 7, Vol. 2, Economic Survey 2020-21.

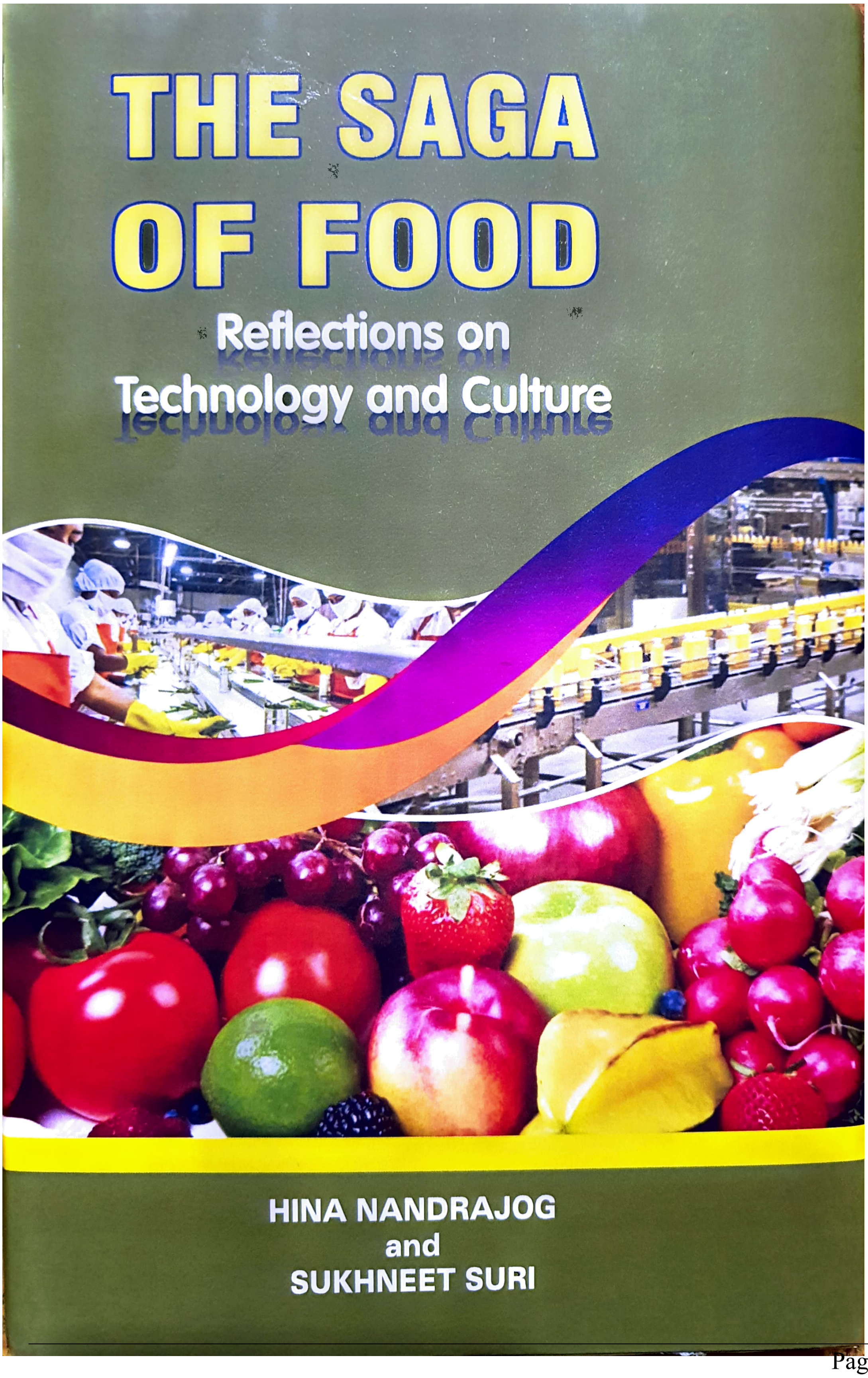
Note: RE: Revised Estimate. PE: Provisional Estimates. AE: Advanced Estimates

Table 11.2: Growth Rate (%) of Principal Sectors in India

Sector/Year	2012-13	2015-16	2018-19 (1st RE)	2019-20 (PE)	2020-21 (1st AE)
Agriculture	1.4	2.1	1.0	3.9	0.9
Industries	3.6	9.5	6.0	0.7	-9.3
Services	7.9	9.0	8.0	6.1	-8.6
GVA (%)	**5.4**	**8.0**	**6.0**	**3.9**	**-7.2**

Source: Table 1.5 B, A 13, Vol. 2, Economic Survey 2020-21.

Note: RE: Revised Estimate. PE: Provisional Estimates. AE: Advanced Estimates.



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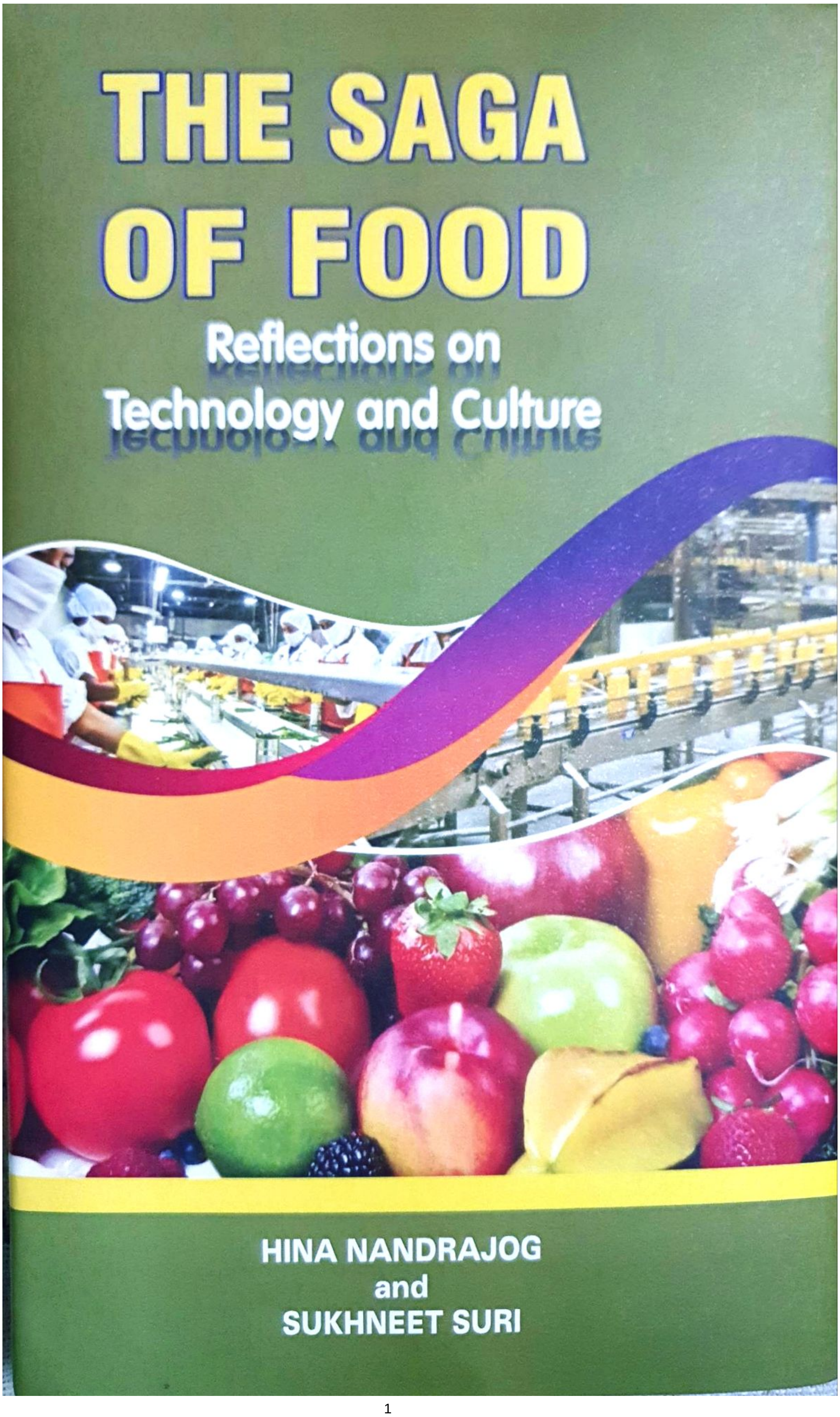

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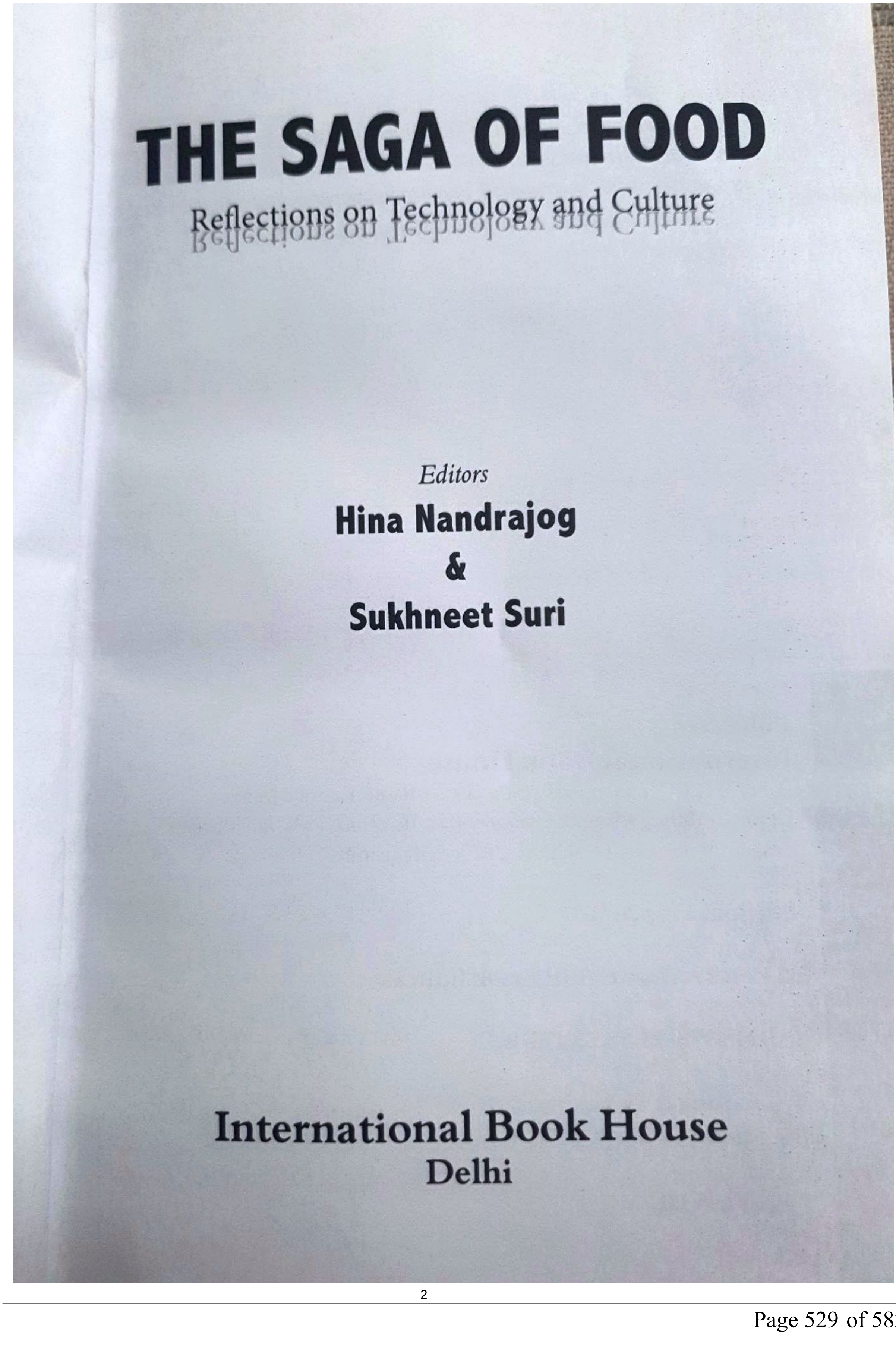

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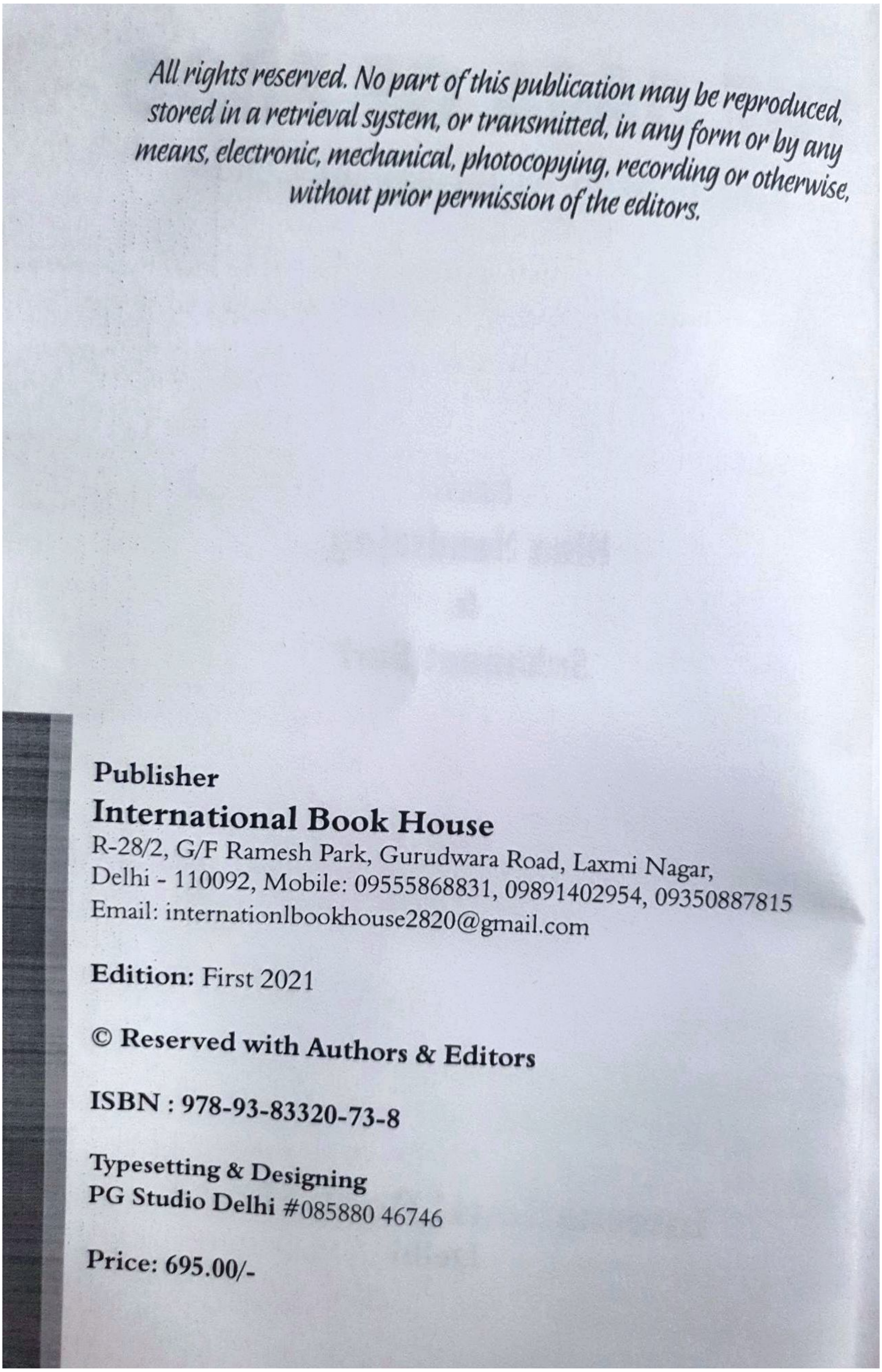

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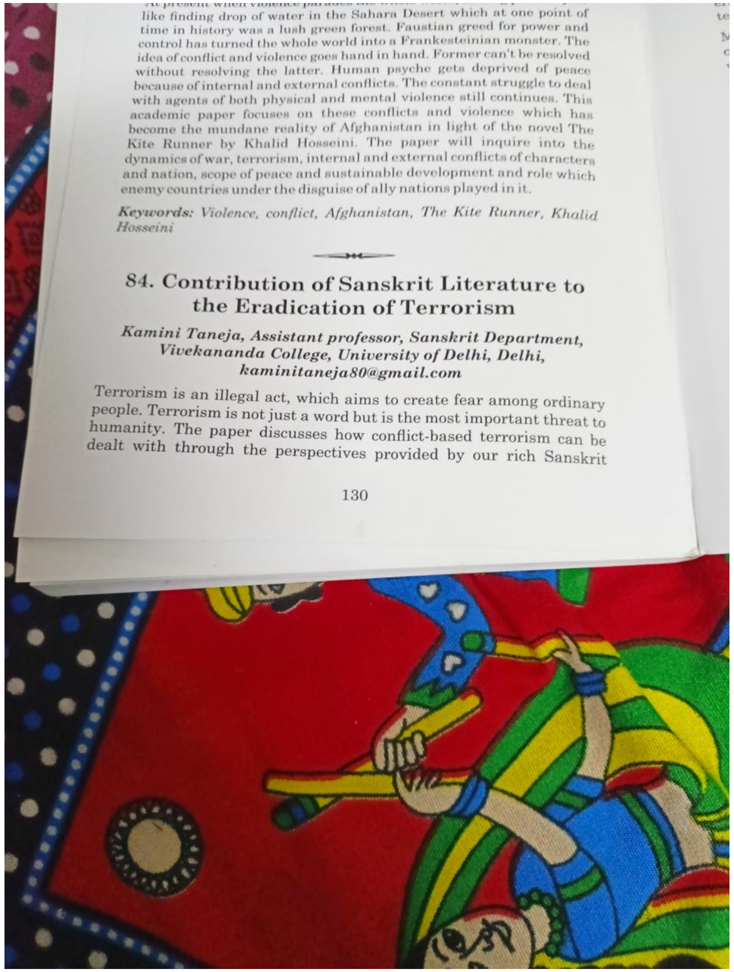

like finding drop of water in the Sahara Desert which at one point of time in history was a lush green forest. Faustian greed for power and control has turned the whole world into a Frankesteinian monster. The idea of conflict and violence goes hand in hand. Former can't be resolved without resolving the latter. Human psyche gets deprived of peace because of internal and external conflicts. The constant struggle to deal with agents of both physical and mental violence still continues. This academic paper focuses on these conflicts and violence which has become the mundane reality of Afghanistan in light of the novel The Kite Runner by Khalid Hosseini. The paper will inquire into the dynamics of war, terrorism, internal and external conflicts of characters and nation, scope of peace and sustainable development and role which enemy countries under the disguise of ally nations played in it.

Keywords: *Violence, conflict, Afghanistan, The Kite Runner, Khalid Hosseini*

* * *

84. Contribution of Sanskrit Literature to the Eradication of Terrorism

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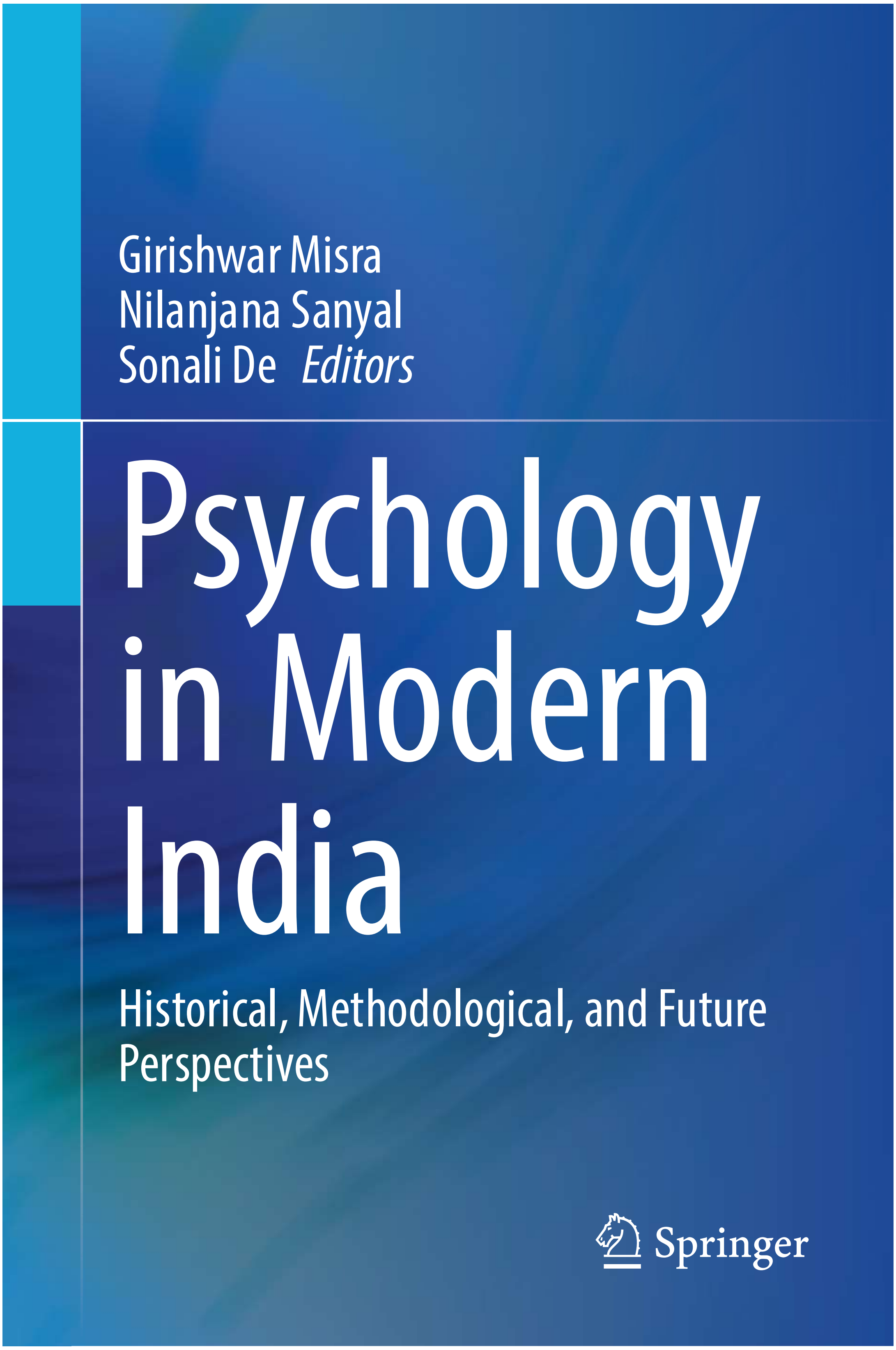
Terrorism is an illegal act, which aims to create fear among ordinary people. Terrorism is not just a word but is the most important threat to humanity. The paper discusses how conflict-based terrorism can be dealt with through the perspectives provided by our rich Sanskrit



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Part III Developments in Sub-fields of Psychology

Part IV Critical Appraisal and Future Perspectives

Chapter 27
Reflections on Nurturing the Tree of Psychology in India

Girishwar Misra, Shivantika Sharad, Nivida Chandra, and Indiwar Misra

Abstract During its disciplinary voyage in India, a tremendous change has taken place in the field of psychology during the last hundred years. It is reflected in the progress noted in the domains of teaching, research, training, and application of psychology in different sectors. In particular, it is evidenced in terms of the emergence of psychology as an independent discipline and endorsement of its claim to that end in the matrix of higher education. Indeed, institutionalization of psychology as different from the discipline of philosophy preoccupied the scholarly endeavors of psychologists placed in universities for several decades. Thus, creating a niche for a legitimate body of scientific knowledge among modern sciences remained a major agenda for psychologists.

Keyword Application · Colonization · Culture · Future · Institutionalization · Methods · Profession · Science · Tree of psychology

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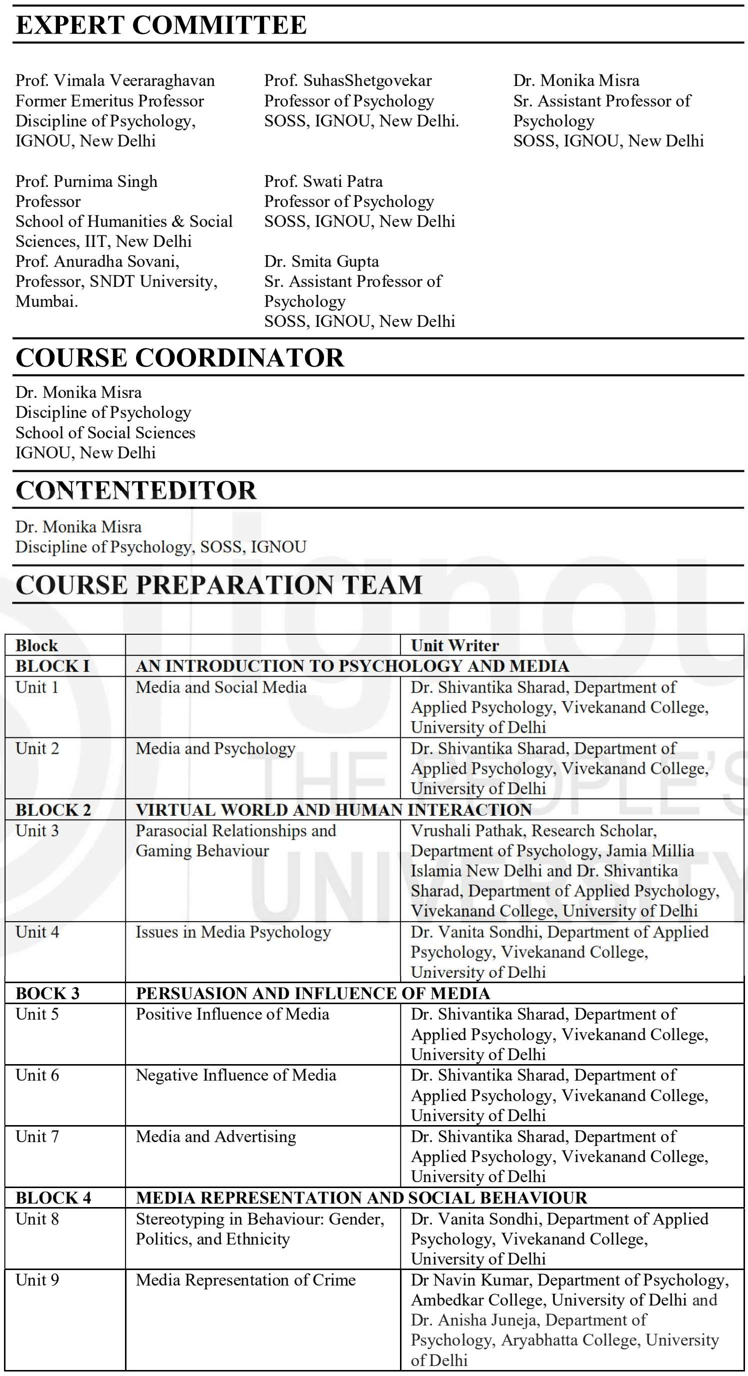

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BLOCK 2
THEORETICAL APPROACHES TO COUNSELLING

UNIT 4 PSYCHODYNAMIC APPROACH[*]

Structure

4.1 LEARNING OBJECTIVES

After studying this Unit, you would be able to:

- *Explain psychoanalytical approach to counselling/therapy;*
- *Describe the goals and techniques of psychoanalysis;*
- *Understand the role of counselor/therapist in psychoanalytically oriented psychotherapy;*
- *Explain insight therapy and its' goals; and*
- *Describe the evaluation of insight therapies including psychoanalytical approaches.*

---

[*] Dr. Shivantika Sharad, Associate Professor, Department of Applied Psychology, Vivekananda College, University of Delhi, Delhi.

UNIT 5 EXISTENTIAL-HUMANISTIC APPROACH*

Structure

5.1 LEARNING OBJECTIVES

After studying this Unit, you would be able to:

- *Explain the basic view of human nature from the perspective of existential and humanistic theories;*
- *Describe the basic process of counseling and strategies/techniques used by existential and person-centered psychotherapist; and*
- *Understand the contributions and limitations of these approaches.*

5.2 INTRODUCTION

Counseling has been influenced by multiplicity of perspectives. Human potentials and problems can be considered from diverse pathways – psychodynamic, cognitive, behavioral, affective, interpersonal, existential and humanistic approach. In the previous unit you learned about

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* Dr. Shivantika Sharad, Associate Professor, Department of Applied Psychology, Vivekananda College, University of Delhi, Delhi

UNIT 6 COGNITIVE AND BEHAVIOURAL APPROACH*

Structure

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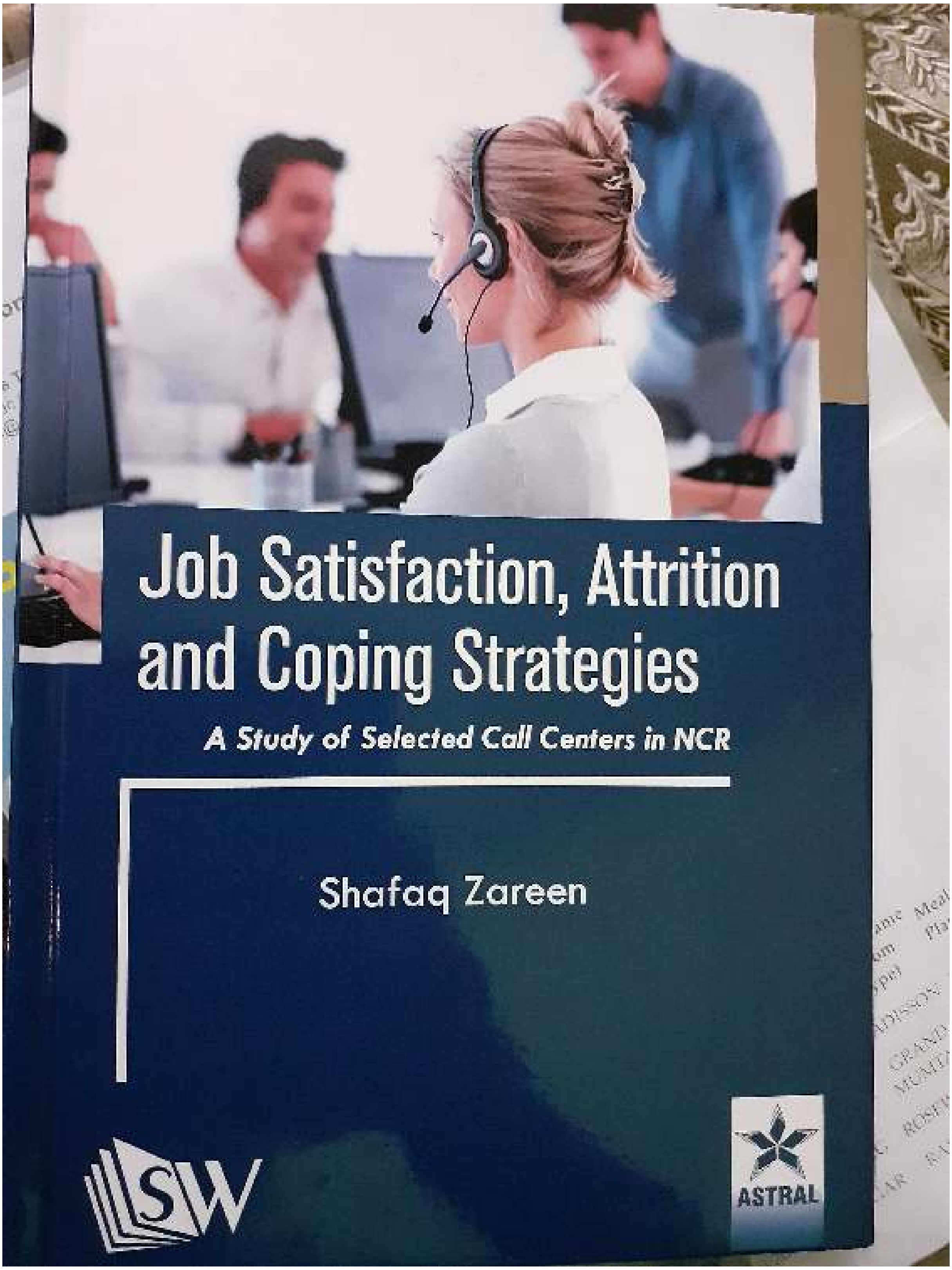
* Dr. Shivantika Sharad, Associate Professor, Department of Applied Psychology, Vivekananda College, University of Delhi, Delhi



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A Study of Selected Call Centers in NCR

Shafaq Zareen

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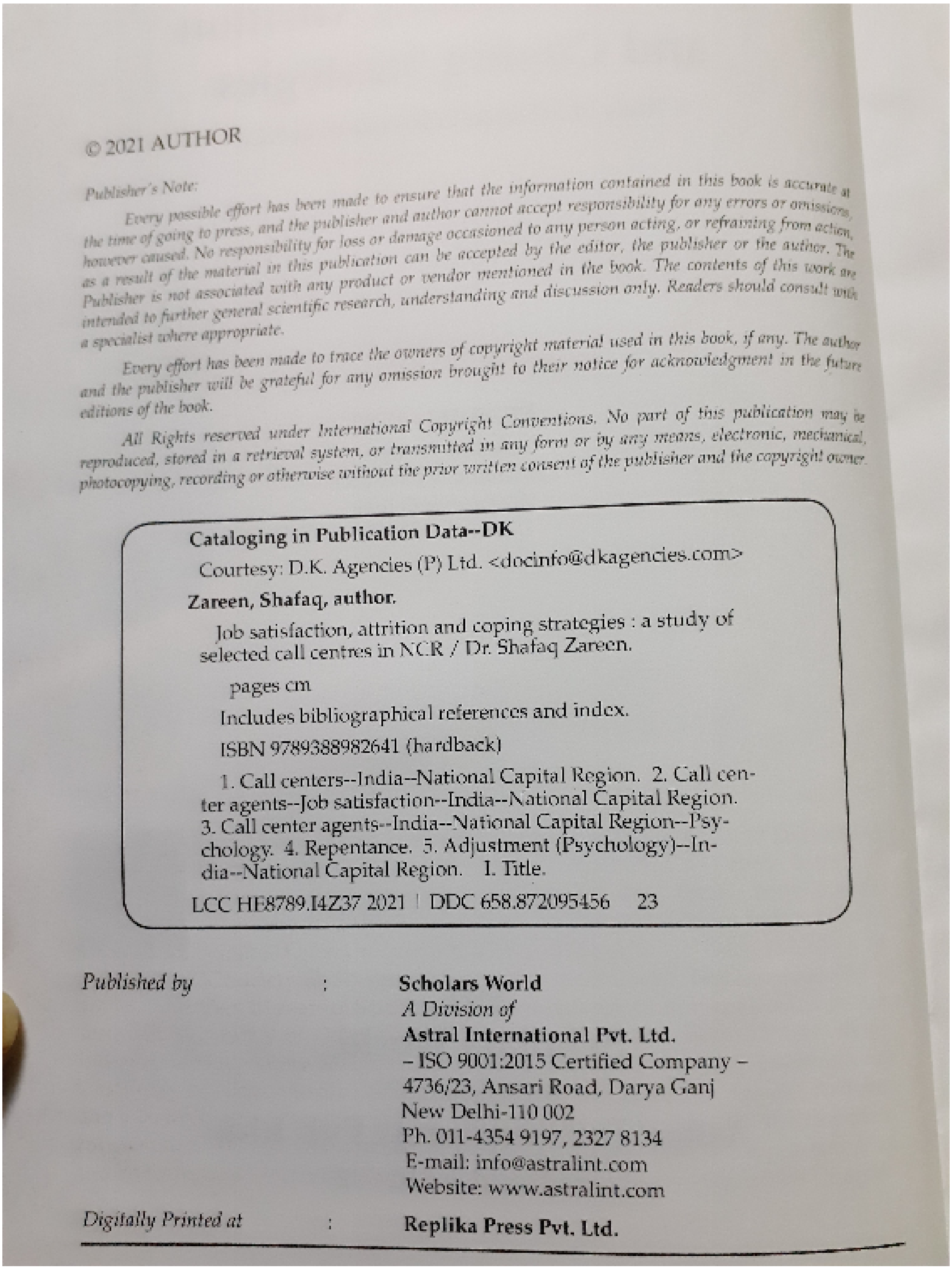

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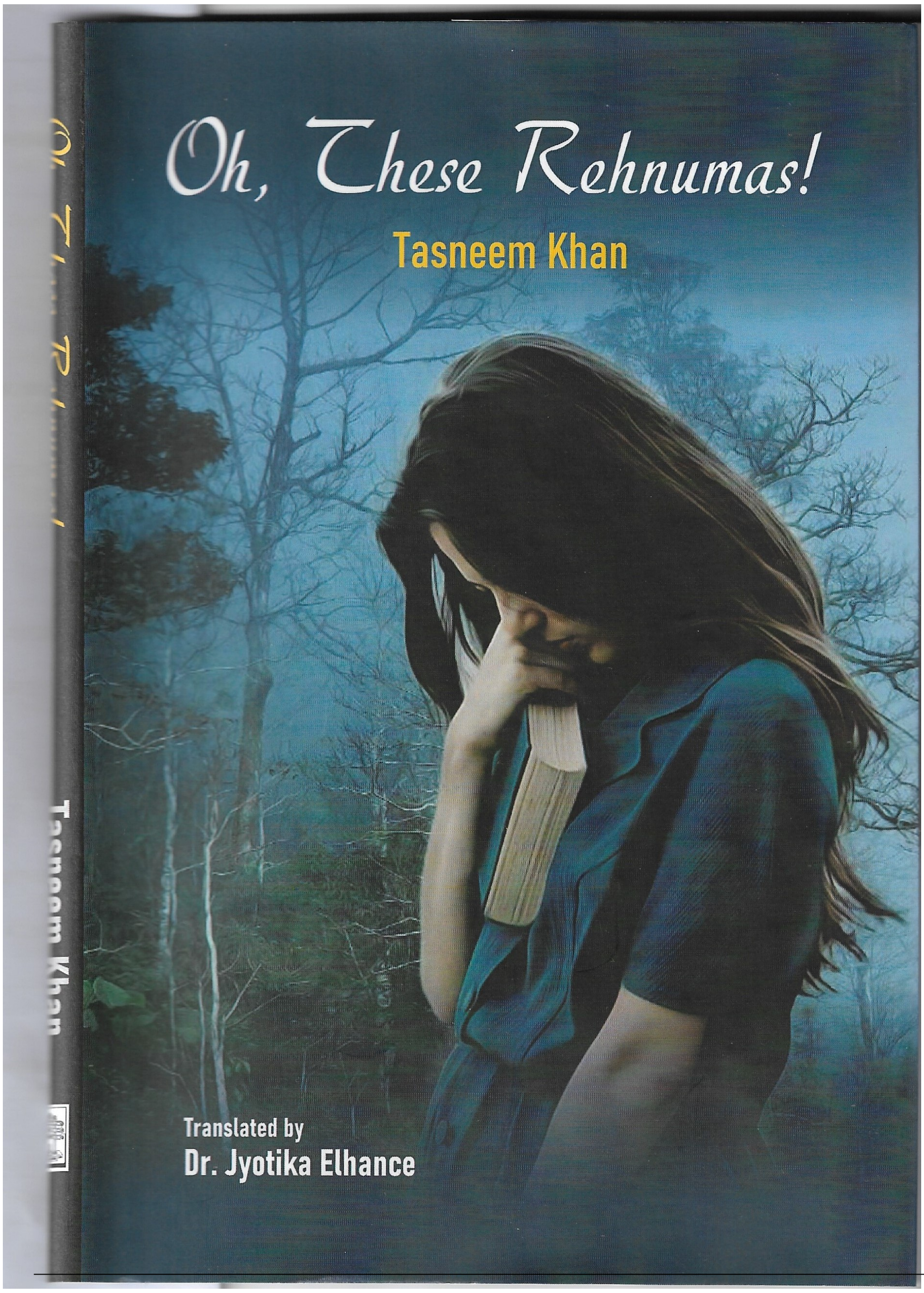
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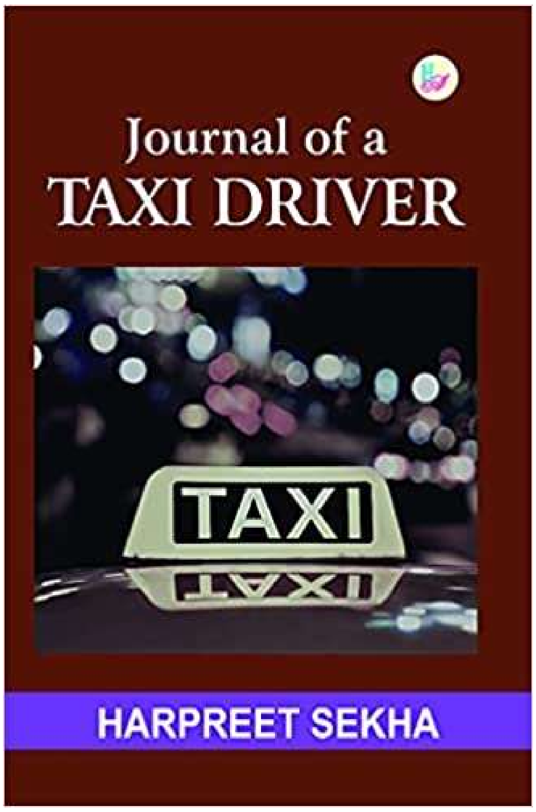

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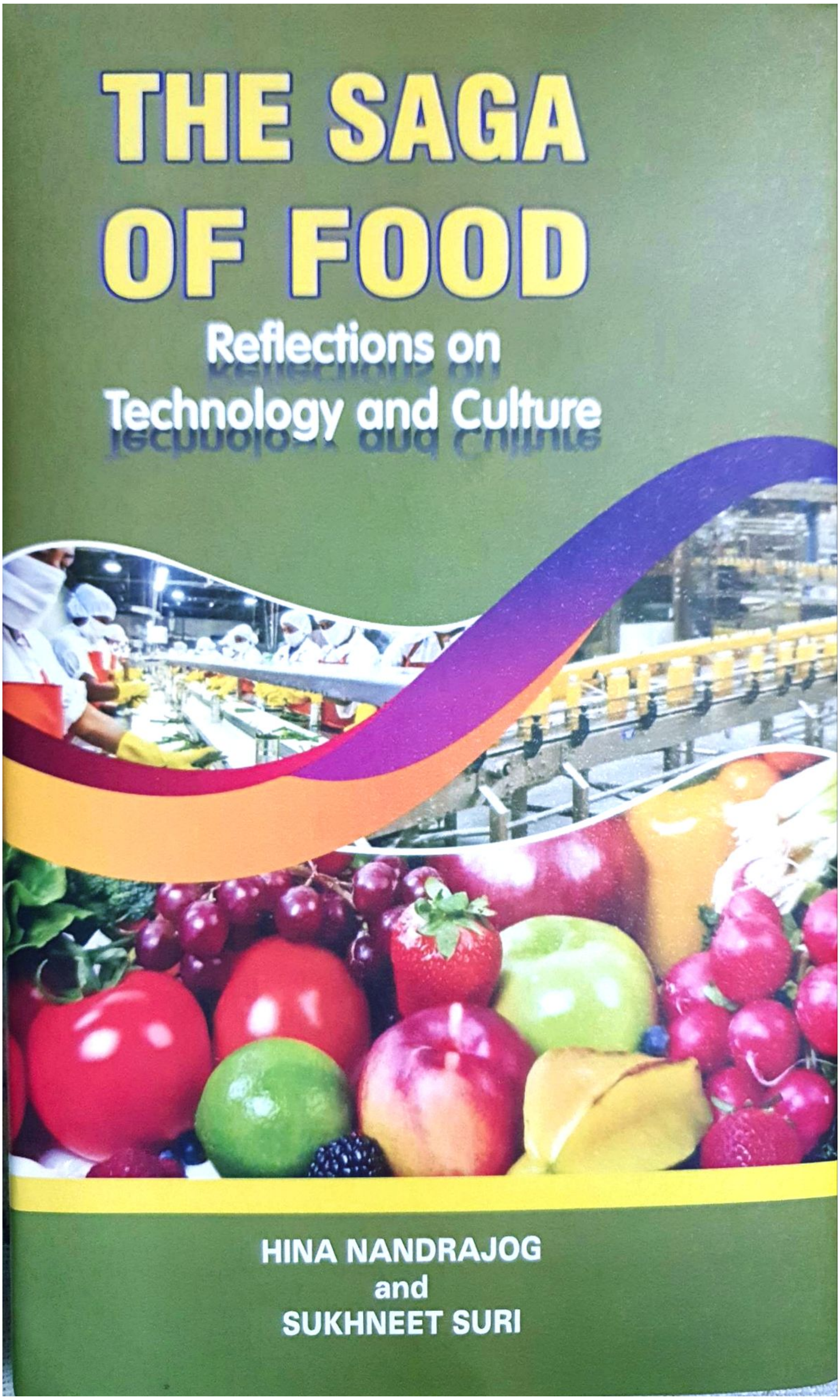
ABOUT THE AUTHOR Harpreet Sekha belongs to village Sekha Kalan in Moga district of Punjab in India. He gave up his engineering course and moved to Canada in 1988 along with his family. He took up several odd jobs such as picking fruit, driving taxis and working in factories. He received a diploma in Mechanical Engineering and is currently working as Computer Numerical Control Machinist. Till date he has published four anthologies of stories, Bee Jee Muskura Paye (2006), Baaran Boohey (2013), Prism (2017) and Daagi (2020). In addition he published Taxinama (2012), a collection of anecdotes about taxi culture. He also published an anthology of stories in Hindi titled Barfkhor Havaien (2017). His Punjabi novel, Hanere Raah, was published in 2020. He also translated Jewels of the Qila: The Remarkable Story of an Indo-Canadian Family by Hugh J.M. Johnston from English into Punjabi titled Qile de Moti in 2017.He lives with his family in Surrey, British Columbia, Canada. ABOUT THE BOOK Taxinama is a memoir in which the author Harpreet Sekha penned his experiences as a taxi driver in his memoir. As he writes in the preface, some are personal experiences while others are accounts narrated by other taxi drivers. The book offers glimpses into the life of taxi drivers, especially immigrant Punjabis who gradually found a home in Canada and also in the taxi business. This prose is the story Punjabi Diaspora who are constantly struggling for their existence in Canada. In multicultural situations they often try to assimilate their selves in the dominating communities by changing their attire, their habits, their food preferences and even their customs, but are never allowed by the people of host country such assimilation. So, they try to save their identity in distress too. This prose collection is being published in English for the first time.



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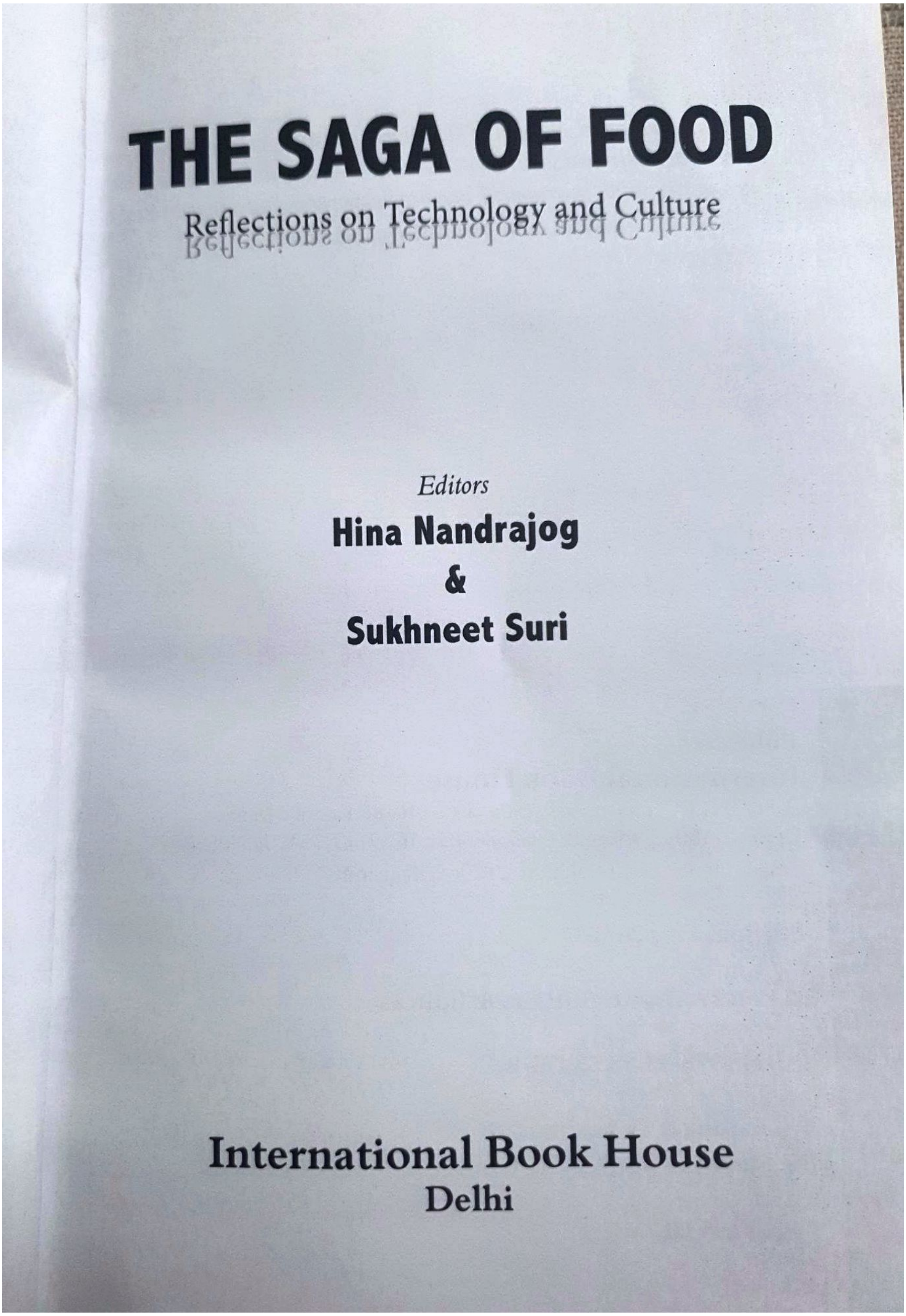

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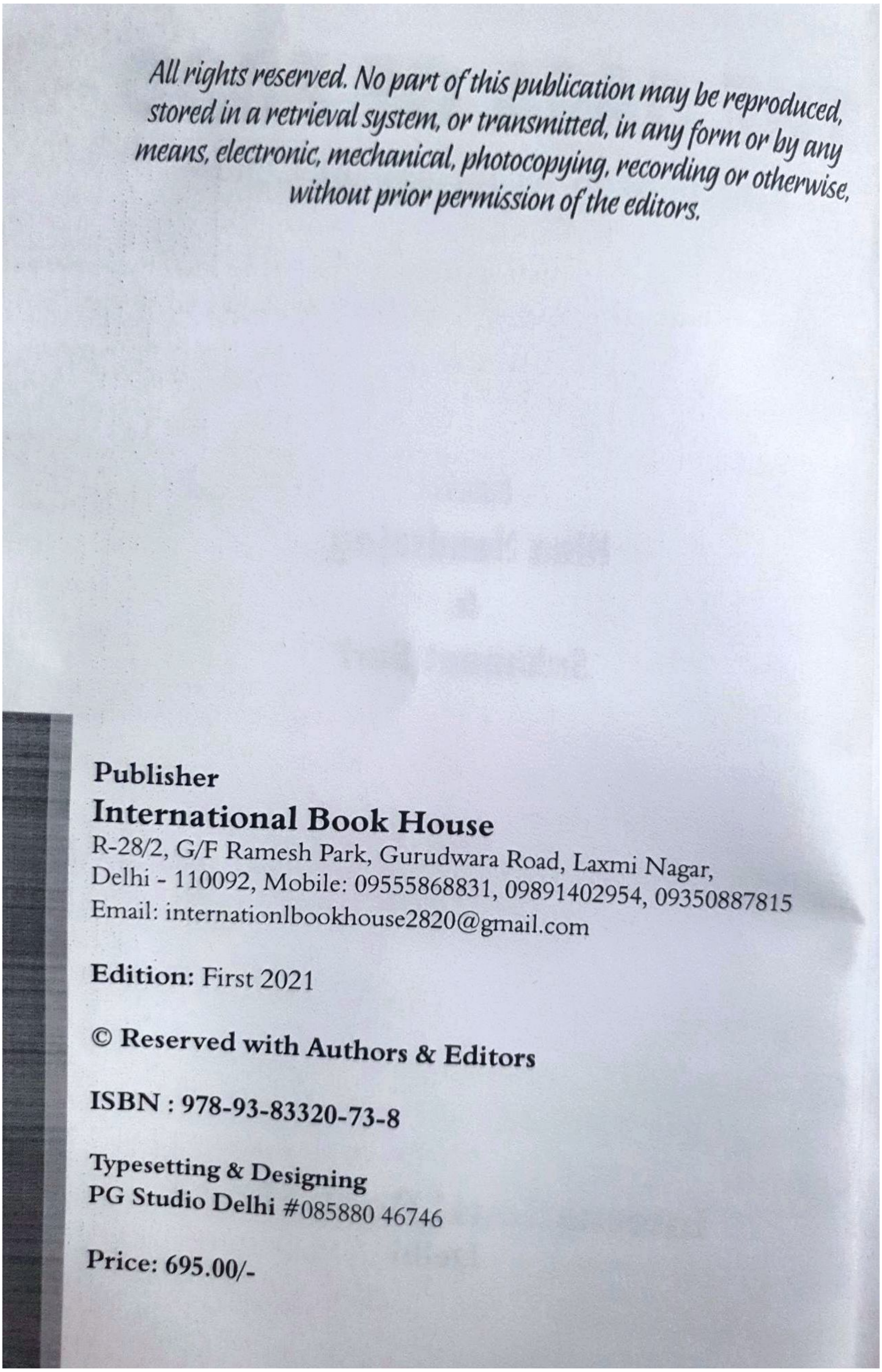

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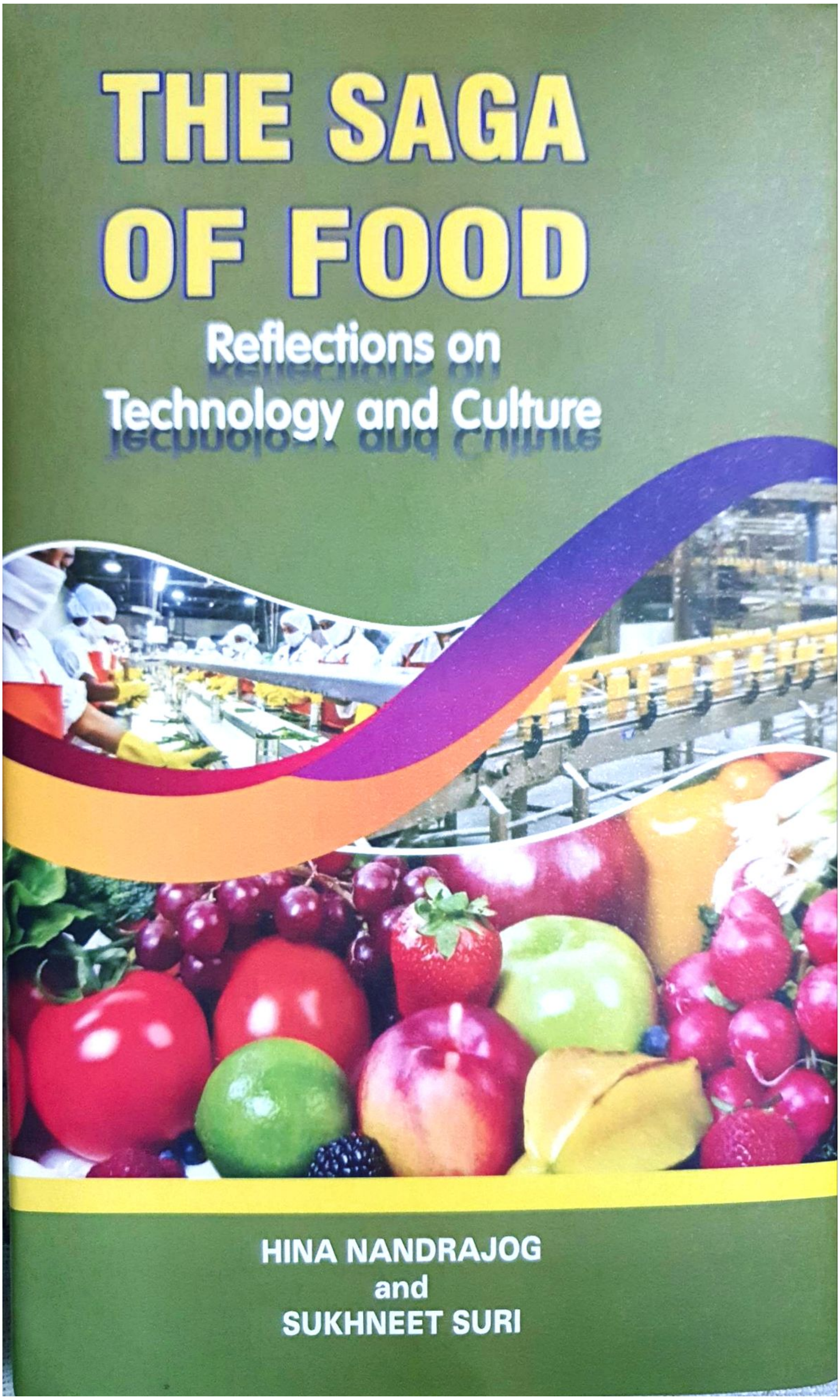

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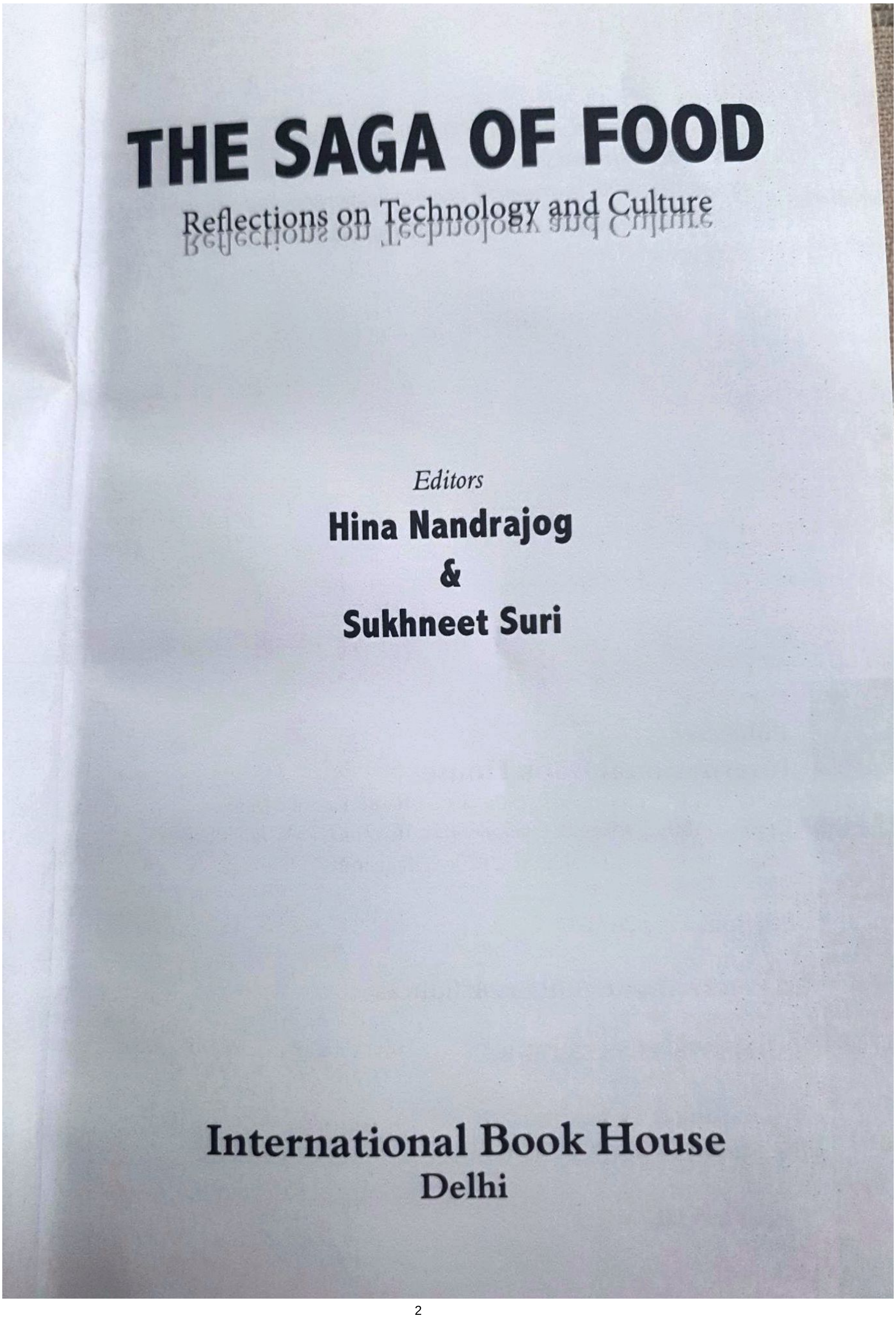

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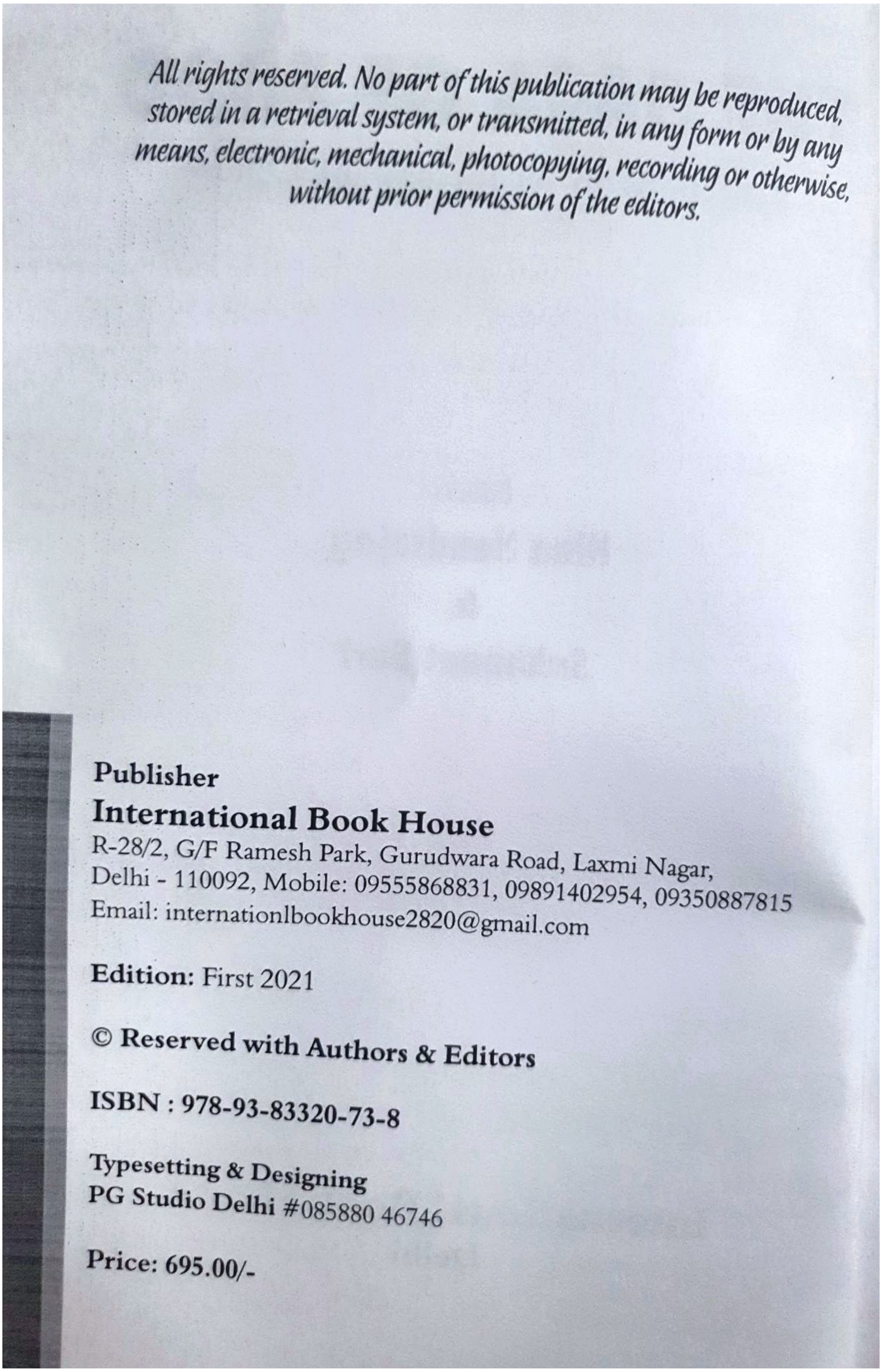

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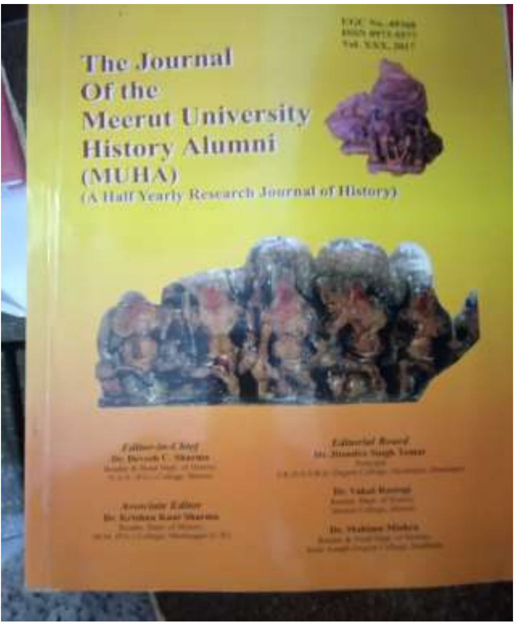

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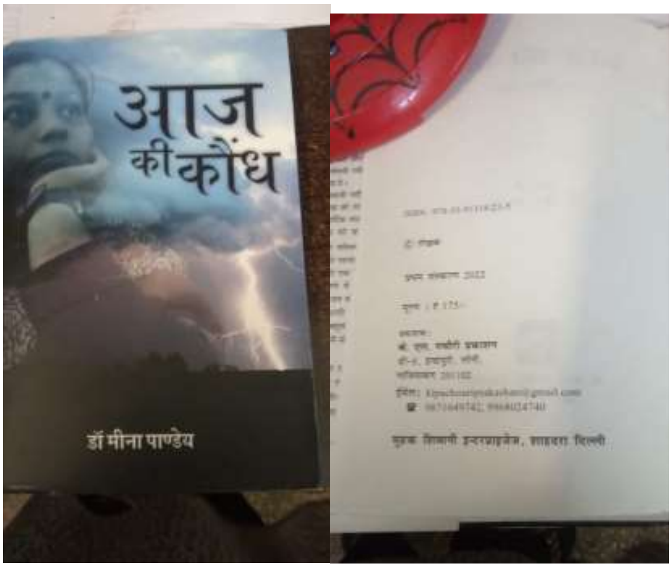

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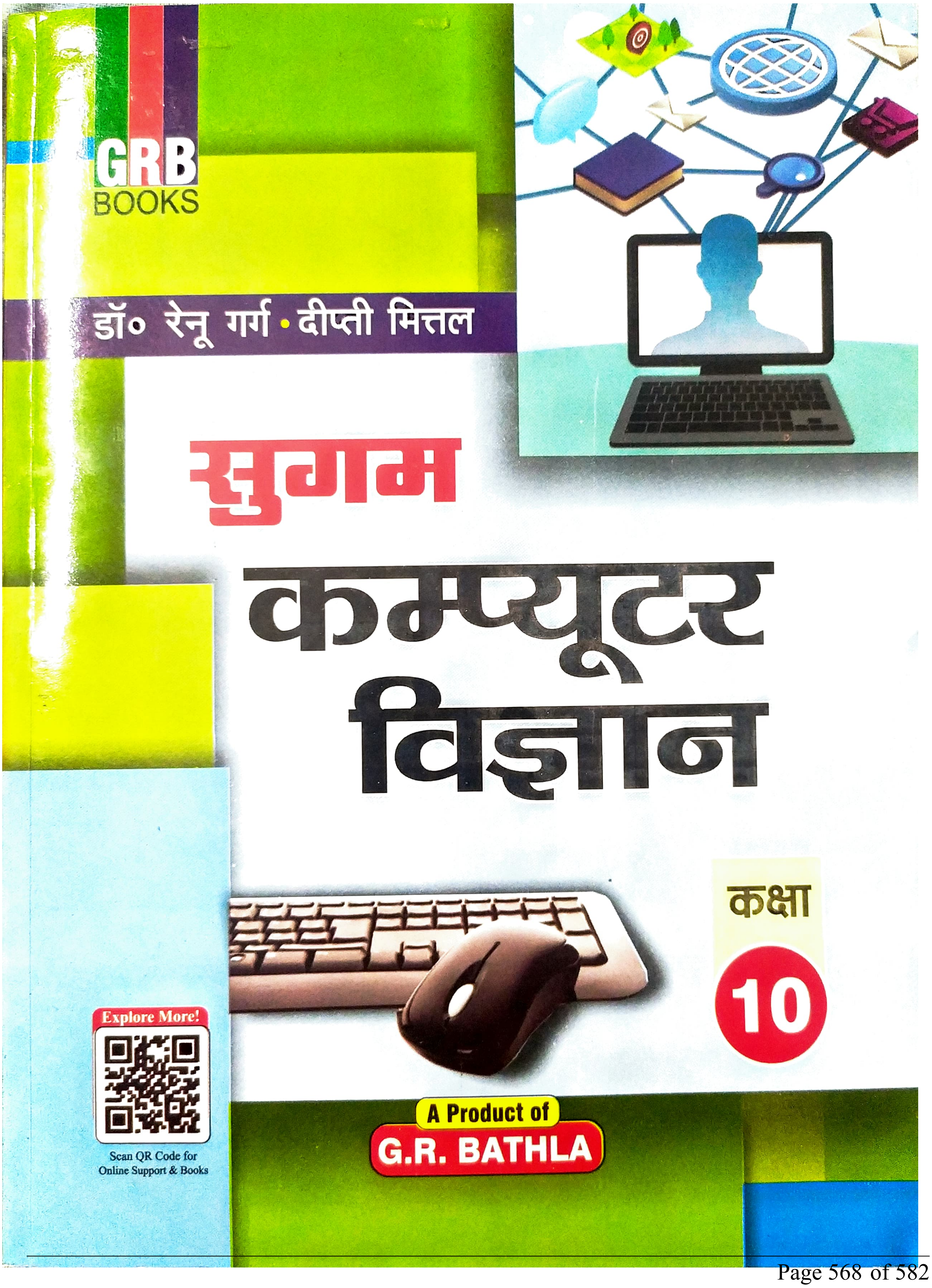

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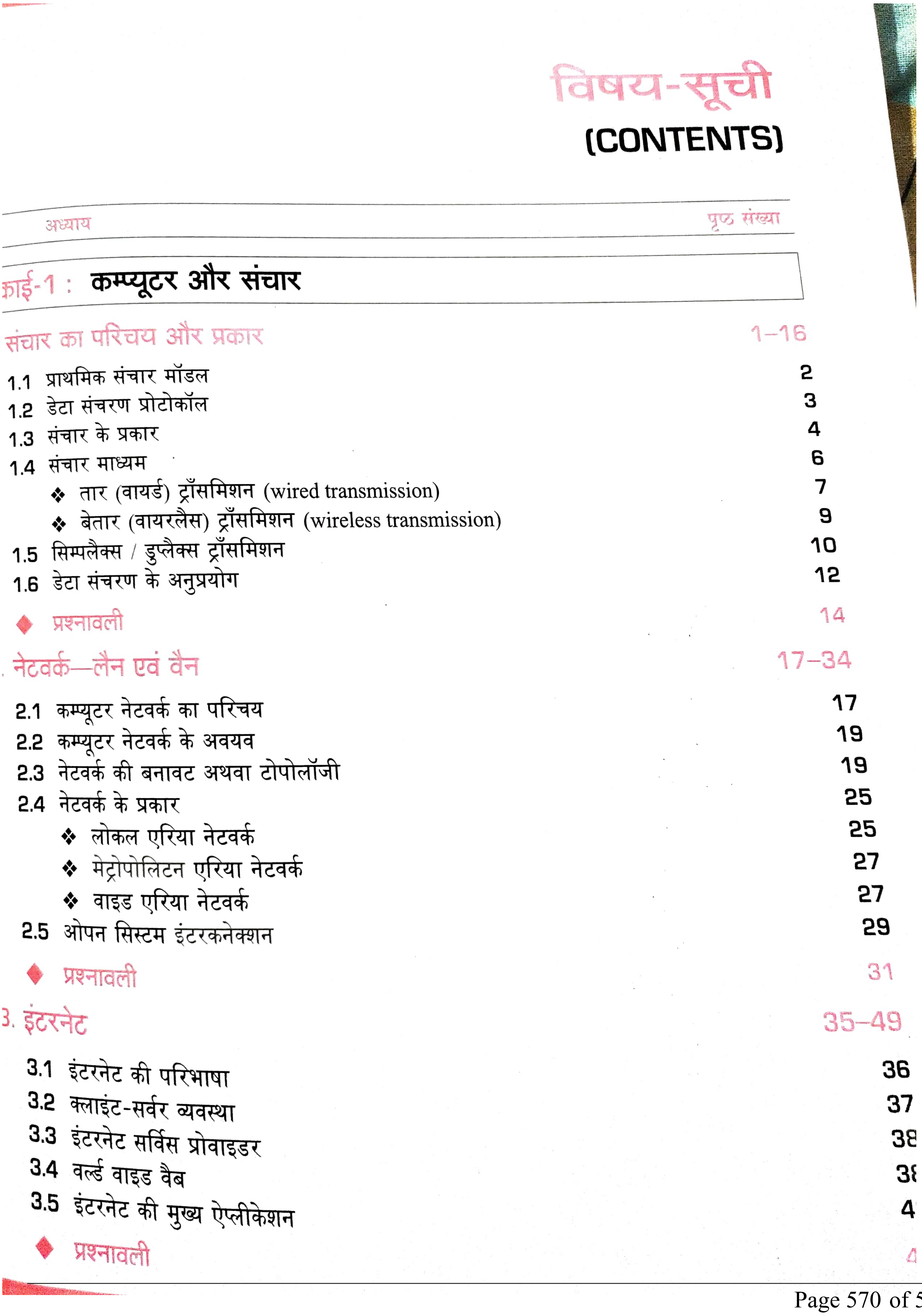

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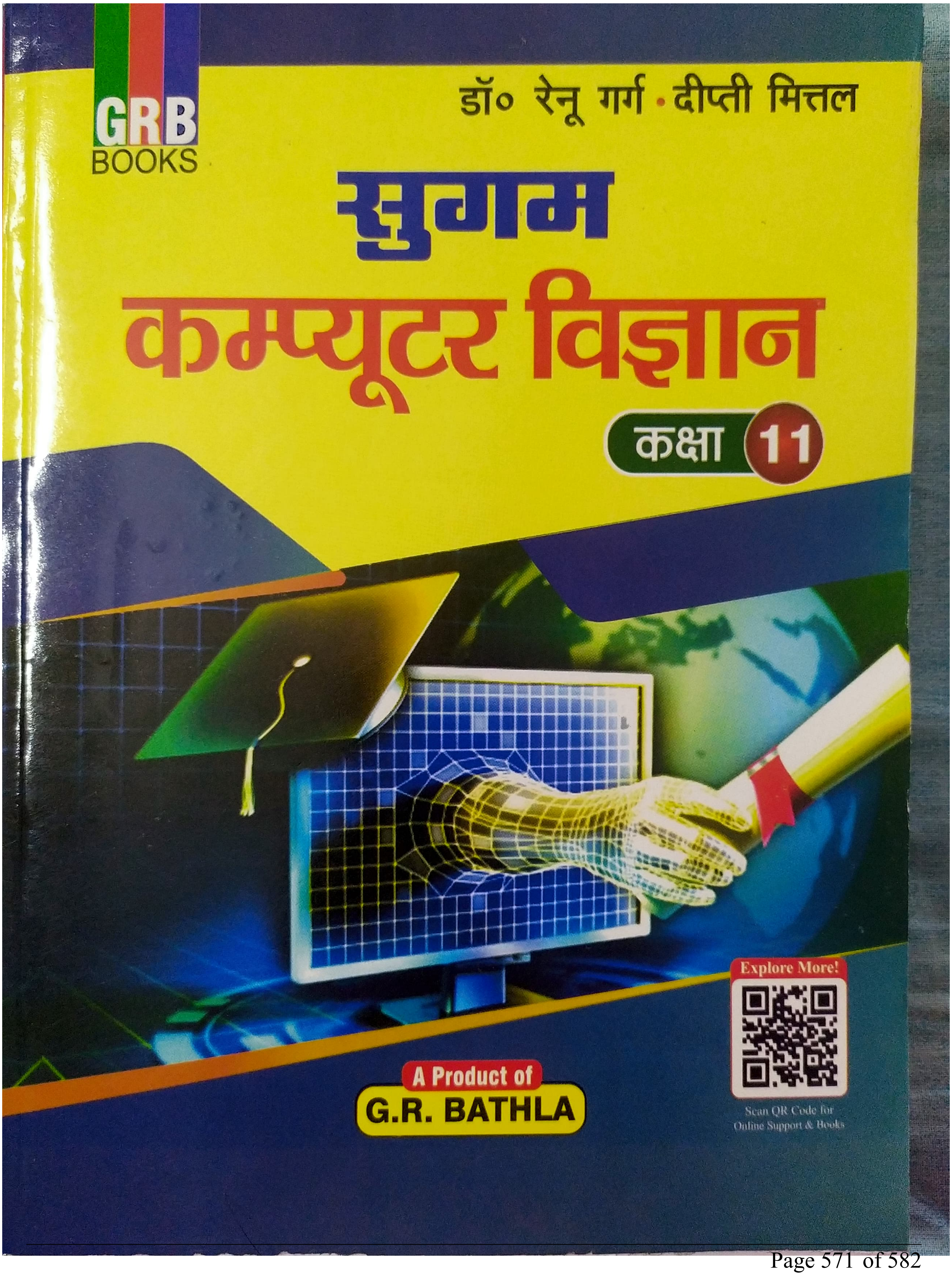

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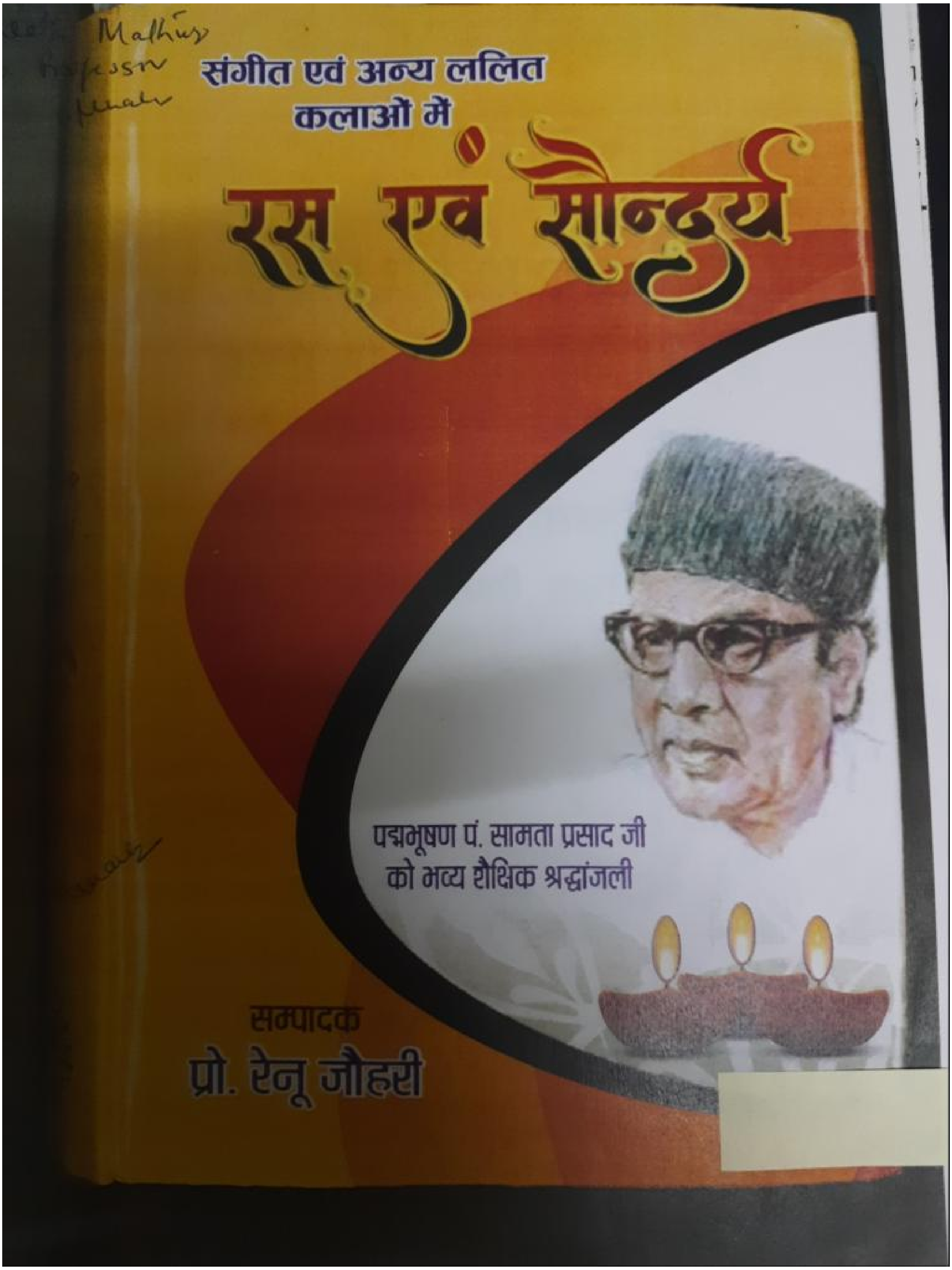

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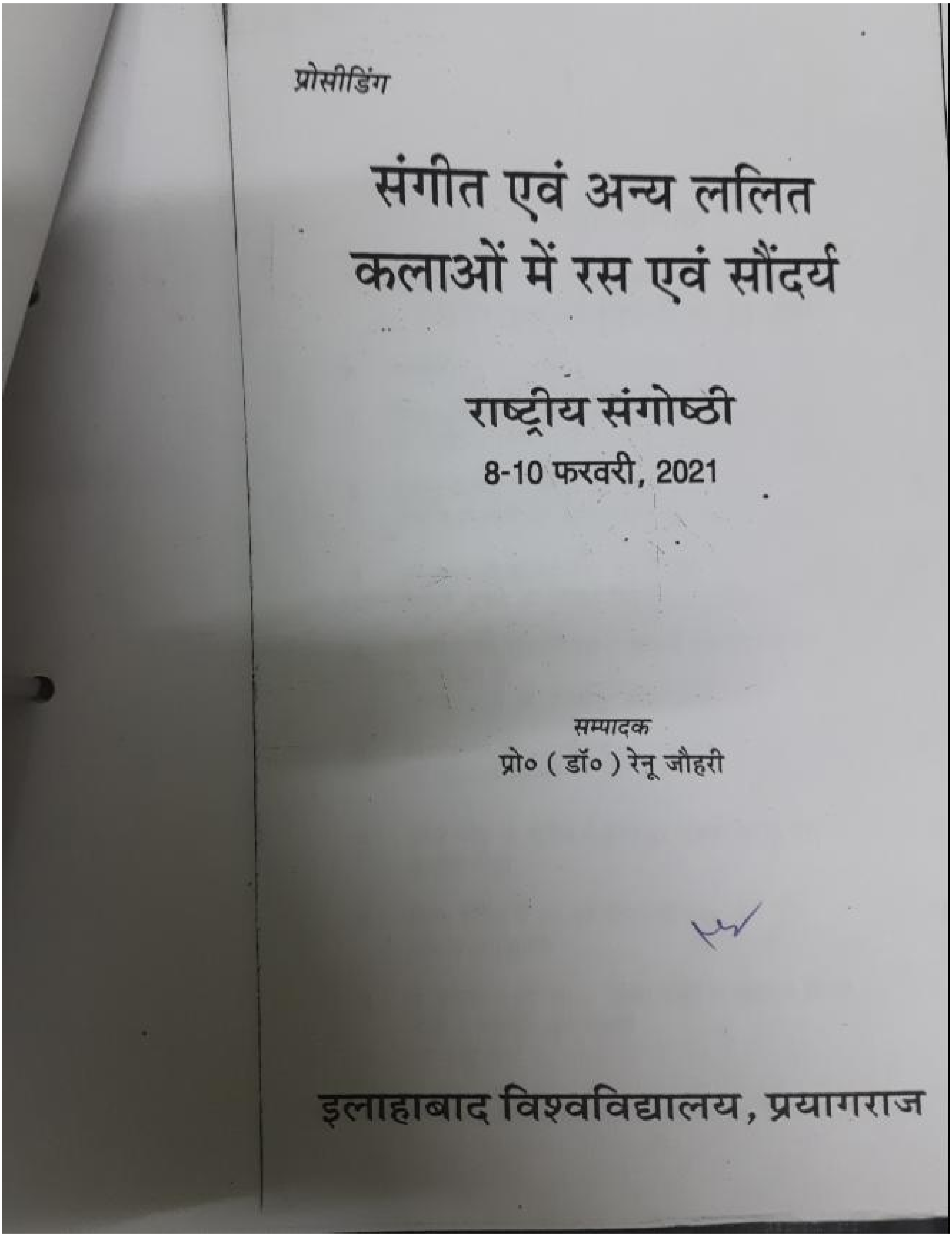

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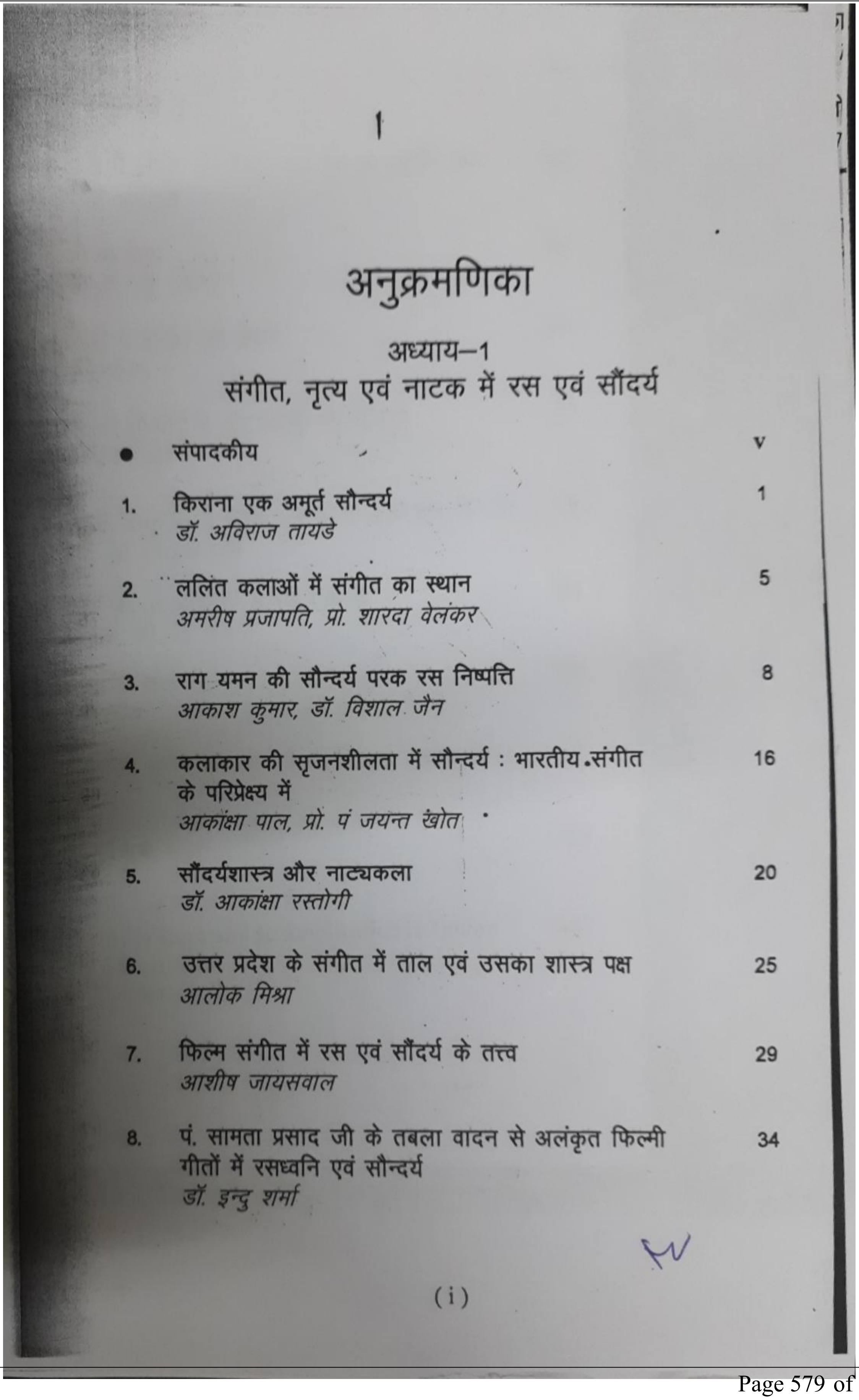

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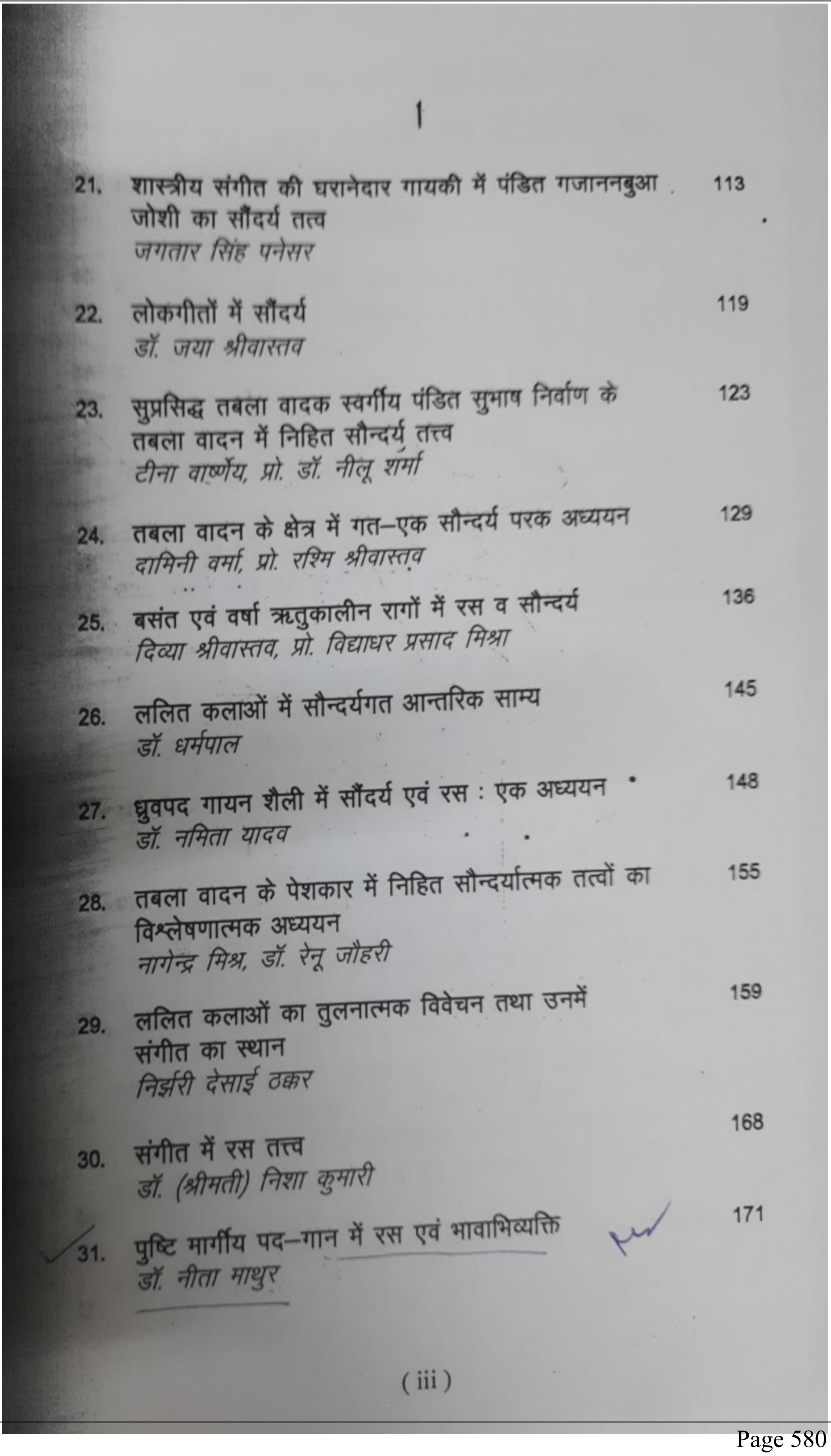

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पुष्टि मार्गीय पद–गान में रस एवं भावाभिव्यक्ति

डॉ. नीता माथुर*

संगीत की सनातन पद्धति किसी न किसी रूप में भक्ति, आध्यात्म एवं रस भाव, सौन्दर्य की पृष्ठभूमि पर अवलम्बित रही है। महाप्रभु वल्लभाचार्य जी (1535 संवत्) द्वारा प्रवर्तित भक्ति मार्ग 'पुष्टि मार्ग' के नाम से सुविख्यात है। पुष्टि पोषणं पोषणं तदनुग्रहः' इस वाक्य से सिद्ध होता है कि पुष्टि कृपा के द्वारा भक्तों के भाव का पोषण करना ही प्रभु का विशेष अनुग्रह है।

'अनुग्रहः पुष्टि मार्गे नियामक्र इति स्थितिः'

पुष्टि मार्ग में भाव की प्रधानता है। 'भावोऽत्र साधनं मार्गेऽप्रमेयो भगवान हि सः।'[1] भगवत् भाव का एक अपना ही स्वभाव और अपना ही अनोखा प्रभाव है। पुष्टि भक्ति वाणी का विलास नहीं है, न बुद्धि का विलास है वह तो सेव्य सेवक भाव सहित सर्वेन्द्रिय, अंतःकरण एवं उसके धर्मपूर्वक आत्मा एवं परमात्मा का विलास है, भक्तो के भाव से ही भगवान भावात्मक स्वरूप धारण करते है।[2]

उपनिषदो ने 'रसो वै सः' कहकर ब्रह्म को ही 'रस' कहा है और उनकी लीलाओ को उसी रस की प्रकाशिका माना है। वल्लभाचार्य जी की सृष्टि में ब्रह्म अनाविर्भूत लीला वाला रस तत्व है और श्रीकृष्ण आविर्भूत लीलामय रस है। भगवान ही रसत्व को प्राप्त होते हैं और भक्त उस रस की अनुभूति करता है।[3]

पुष्टिमार्गीय सेवा पद्वति में राग, भोग, श्रंगार सेवाओं में 'राग' अथवा कीर्तन सेवा को सर्वोपरि माना गया है। श्रीमहाप्रभु जी ने अपने चार प्रमुख चार संगीतज्ञ शिष्यों सूरदास, परमानन्ददास, कृष्णदास, कुम्भनदास जी को सेवा प्रदान की तत्पश्चात् उनके सुपुत्र गोस्वामी श्री विट्ठलनाथ जी ने अपने सान्निध्य के चार भक्त संगीतज्ञ दृ नंददास, गोविंदस्वामी, चतुर्भुजदास और छीतस्वामीको पद दृ गान की संगीत सेवा प्रदान कर अष्टयाम की सेवा मंगला, श्रंगार, राजभोग, उत्थापन, भोग, संध्या, आरती, शयन की अत्यंत सुव्यवस्थित और रसमयी भावमयी कीर्तन गान पद्धति का शुभारंभ किया। ये आठों कीर्तनकार 'अष्टछाप' या 'अष्टसखा' के नाम से सुप्रसिद्ध हुए जिन्होंने श्रीकृष्ण के कोटिरसमय लीलात्मक स्वरूप का चित्रण करते हुए असंख्य पदों को विभिन्न रसों,रागो एवं तालो में निबद्ध किया और साहित्य

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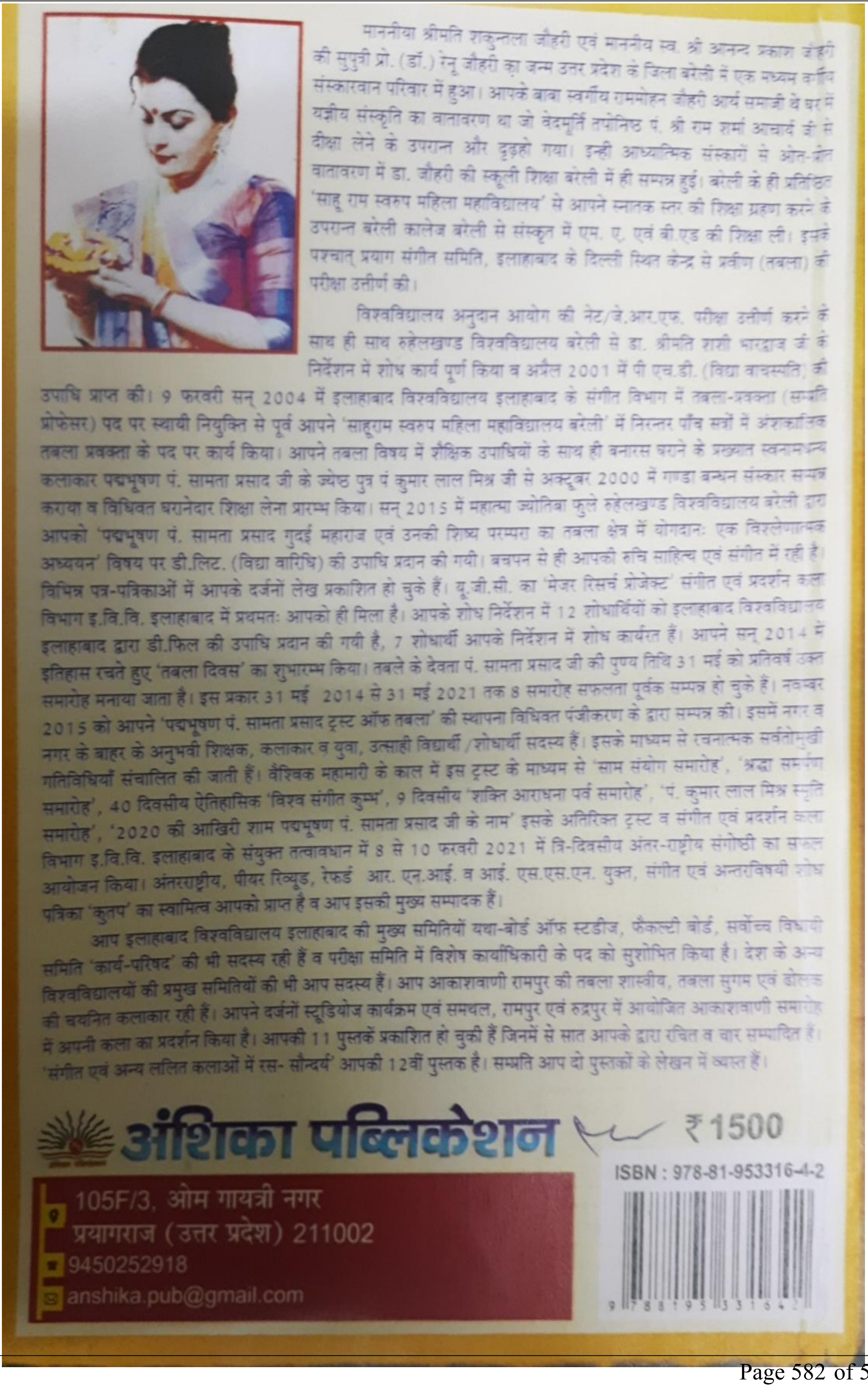

माननीया श्रीमति शकुन्तला जौहरी एवं माननीय स्व. श्री आनन्द प्रकाश जौहरी की सुपुत्री प्रो. (डॉ.) रेनू जौहरी का जन्म उत्तर प्रदेश के जिला बरेली में एक मध्यम वर्गीय संस्कारवान परिवार में हुआ। आपके बाबा स्वर्गीय राममोहन जौहरी आर्य समाजी थे घर में यज्ञीय संस्कृति का वातावरण था जो वेदमूर्ति तपोनिष्ठ पं. श्री राम शर्मा आचार्य जी से दीक्षा लेने के उपरान्त और दृढ़हो गया। इन्हीं आध्यात्मिक संस्कारों से ओत-प्रोत वातावरण में डा. जौहरी की स्कूली शिक्षा बरेली में ही सम्पन्न हुई। बरेली के ही प्रतिष्ठित 'साहू राम स्वरुप महिला महाविद्यालय' से आपने स्नातक स्तर की शिक्षा ग्रहण करने के उपरान्त बरेली कालेज बरेली से संस्कृत में एम. ए. एवं बी.एड की शिक्षा ली। इसके पश्चात् प्रयाग संगीत समिति, इलाहाबाद के दिल्ली स्थित केन्द्र से प्रवीण (तबला) की परीक्षा उत्तीर्ण की।

विश्वविद्यालय अनुदान आयोग की नेट/जे.आर.एफ. परीक्षा उत्तीर्ण करने के साथ ही साथ रुहेलखण्ड विश्वविद्यालय बरेली से डा. श्रीमति शशी भारद्वाज जी के निर्देशन मे शोध कार्य पूर्ण किया व अप्रैल 2001 में पी एच.डी. (विद्या वाचस्पति) की उपाधि प्राप्त की। 9 फरवरी सन् 2004 में इलाहाबाद विश्वविद्यालय इलाहाबाद के संगीत विभाग में तबला-प्रवक्ता (सम्प्रति प्रोफेसर) पद पर स्थायी नियुक्ति से पूर्व आपने 'साहूराम स्वरुप महिला महाविद्यालय बरेली' में निरन्तर पाँच सत्रों में अंशकालिक तबला प्रवक्ता के पद पर कार्य किया। आपने तबला विषय में शैक्षिक उपाधियों के साथ ही बनारस घराने के प्रख्यात स्वनामधन्य कलाकार पद्मभूषण पं. सामता प्रसाद जी के ज्येष्ठ पुत्र पं कुमार लाल मिश्र जी से अक्टूबर 2000 में गण्डा बन्धन संस्कार सम्पन्न कराया व विधिवत घरानेदार शिक्षा लेना प्रारम्भ किया। सन् 2015 में महात्मा ज्योतिबा फुले रुहेलखण्ड विश्वविद्यालय बरेली द्वारा आपको 'पद्मभूषण पं. सामता प्रसाद गुदई महाराज एवं उनकी शिष्य परम्परा का तबला क्षेत्र में योगदान: एक विश्लेषणात्मक अध्ययन' विषय पर डी.लिट. (विद्या वारिधि) की उपाधि प्रदान की गयी। बचपन से ही आपकी रुचि साहित्य एवं संगीत में रही है। विभिन्न पत्र-पत्रिकाओं में आपके दर्जनों लेख प्रकाशित हो चुके हैं। यू.जी.सी. का 'मेजर रिसर्च प्रोजेक्ट' संगीत एवं प्रदर्शन कला विभाग इ.वि.वि. इलाहाबाद में प्रथमतः आपको ही मिला है। आपके शोध निर्देशन में 12 शोधार्थियों को इलाहाबाद विश्वविद्यालय इलाहाबाद द्वारा डी.फिल की उपाधि प्रदान की गयी है, 7 शोधार्थी आपके निर्देशन में शोध कार्यरत हैं। आपने सन् 2014 में इतिहास रचते हुए 'तबला दिवस' का शुभारम्भ किया। तबले के देवता पं. सामता प्रसाद जी की पुण्य तिथि 31 मई को प्रतिवर्ष उक्त समारोह मनाया जाता है। इस प्रकार 31 मई 2014 से 31 मई 2021 तक 8 समारोह सफलता पूर्वक सम्पन्न हो चुके हैं। नवम्बर 2015 को आपने 'पद्मभूषण पं. सामता प्रसाद ट्रस्ट ऑफ तबला' की स्थापना विधिवत पंजीकरण के द्वारा सम्पन्न की। इसमें नगर व नगर के बाहर के अनुभवी शिक्षक, कलाकार व युवा, उत्साही विद्यार्थी /शोधार्थी सदस्य हैं। इसके माध्यम से रचनात्मक सर्वतोमुखी गतिविधियाँ संचालित की जाती हैं। वैश्विक महामारी के काल में इस ट्रस्ट के माध्यम से 'साम संयोग समारोह', 'श्रद्धा समर्पण समारोह', 40 दिवसीय ऐतिहासिक 'विश्व संगीत कुम्भ', 9 दिवसीय 'शक्ति आराधना पर्व समारोह', 'पं. कुमार लाल मिश्र स्मृति समारोह', '2020 की आखिरी शाम पद्मभूषण पं. सामता प्रसाद जी के नाम' इसके अतिरिक्त ट्रस्ट व संगीत एवं प्रदर्शन कला विभाग इ.वि.वि. इलाहाबाद के संयुक्त तत्वावधान में 8 से 10 फरवरी 2021 में त्रि-दिवसीय अंतर-राष्ट्रीय संगोष्ठी का सफल आयोजन किया। अंतरराष्ट्रीय, पीयर रिव्यूड, रेफर्ड आर. एन.आई. व आई. एस.एस.एन. युक्त, संगीत एवं अन्तरविषयी शोध पत्रिका 'कुतप' का स्वामित्व आपको प्राप्त है व आप इसकी मुख्य सम्पादक हैं।

आप इलाहाबाद विश्वविद्यालय इलाहाबाद की मुख्य समितियों यथा-बोर्ड ऑफ स्टडीज, फैकल्टी बोर्ड, सर्वोच्च विधायी समिति 'कार्य-परिषद' की भी सदस्य रही हैं व परीक्षा समिति में विशेष कार्याधिकारी के पद को सुशोभित किया है। देश के अन्य विश्वविद्यालयों की प्रमुख समितियों की भी आप सदस्य हैं। आप आकाशवाणी रामपुर की तबला शास्त्रीय, तबला सुगम एवं ढोलक की चयनित कलाकार रही हैं। आपने दर्जनों स्टूडियोज कार्यक्रम एवं समथल, रामपुर एवं रुद्रपुर में आयोजित आकाशवाणी समारोह में अपनी कला का प्रदर्शन किया है। आपकी 11 पुस्तकें प्रकाशित हो चुकी हैं जिनमें से सात आपके द्वारा रचित व चार सम्पादित हैं। 'संगीत एवं अन्य ललित कलाओं में रस- सौन्दर्य' आपकी 12वीं पुस्तक है। सम्प्रति आप दो पुस्तकों के लेखन में व्यस्त हैं।

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